

CITY OF NORFOLK, VIRGINIA

\$11,900,000

General Obligation Refunding Bonds, Series 2008A (Tax-Exempt)

\$5,260,000

General Obligation Refunding Bonds, Series 2008B (Taxable)

Dated: Date of delivery

Due: November 1, as shown on the inside cover

The City of Norfolk, Virginia (the "City") prepared this Official Statement to provide information on the 2008A Bonds and the 2008B Bonds (collectively, the "Bonds"). This cover page presents a summary of selected information for your convenience and does not provide a complete description of the Bonds. To make an informed decision regarding the Bonds, you should read this Official Statement in its entirety.

Tax Matters

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by and the accuracy of certain representations and certifications of the City and other persons and entities described in "Tax Matters" on page 6, interest on the 2008A Bonds (a) is excludable from the gross income of the owners of the 2008A Bonds for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel observes that interest on the 2008A Bonds may be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations.

In the opinion of Bond Counsel, interest on the 2008B Bonds is not excludable from the gross income of the owners of the 2008B Bonds for federal income tax purposes under Section 103 of the Code.

Bond Counsel is of the further opinion that interest on the Bonds is excludable from gross income for purposes of income taxation by the Commonwealth of Virginia (the "Commonwealth").

Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

See "Tax Matters" on page 6 regarding other tax considerations.

Security

The Bonds are general obligations of the City. See page 5.

Redemption

See inside cover.

Authority for Issuance

Ordinance No. 42,920, adopted by the City Council of the City on December 4, 2007, authorizes the issuance of the Bonds.

Purpose

The City will use these proceeds to (i) refund certain outstanding debt subject to market conditions and the City's ability to realize certain savings targets and (ii) pay costs of issuance of the Bonds. See page 4.

Interest Payment Dates

Semi-annually on May 1 and November 1 beginning November 1, 2008.

Registration

Book-Entry-Only; The Depository Trust Company. See page 2.

Closing/Delivery Date

On or about February 13, 2008.

Bond Counsel

McGuireWoods LLP, Richmond, Virginia.

Financial Advisor

Public Financial Management, Inc., Arlington, Virginia.

Registrar/Paying Agent

Director of Finance of the City.

Issuer Contact

Director of Finance of the City. (757) 664-4346

Dated: January 30, 2008

CITY OF NORFOLK, VIRGINIA

\$11,900,000

**General Obligation Refunding Bonds,
Series 2008A (Tax-Exempt)**

\$5,260,000

**General Obligation Refunding Bonds,
Series 2008B (Taxable)**

(Base Cusip Number 655867)

2008A Bonds

Maturities, Amounts, Interest Rates, Yields and Prices

Year of Maturity	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix
2008	\$1,855,000	3.00%	2.00%	100.706%	DS5
2009	1,750,000	3.00	2.02	101.643	DT3
2010	1,650,000	3.00	2.23	102.016	DU0
2011	1,555,000	3.50	2.49	103.561	DV8
2012	1,200,000	3.00	2.61	101.717	DW6
2013	1,070,000	3.25	2.79	102.412	DX4
2014	930,000	3.00	2.92	100.482	DY2
2015	785,000	3.25	3.03	101.500	DZ9
2016	630,000	3.50	3.19	102.339	EA3
2017	475,000	3.50	3.31	101.564	EB1

2008B Bonds

Maturities, Amounts, Interest Rates, Yields and Prices

Year of Maturity	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix
2009	\$170,000	4.625%	3.50%	101.853	EC9
2010	195,000	4.625	3.70	102.364	ED7
2011	220,000	4.625	3.85	102.654	EE5
2012	505,000	4.625	4.00	102.656	EF2
2013	565,000	4.625	4.15	102.389	EG0
2014	630,000	4.625	4.30	101.872	EH8
2015	700,000	4.625	4.45	101.126	EJ4
2016	780,000	4.625	4.60	100.171	EK1
2017	865,000	4.625	4.75	99.029	EL9
2018	630,000	4.625	4.90	97.721	EM7

Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

CITY OF NORFOLK, VIRGINIA

CITY COUNCIL

Paul D. Fraim, Mayor

Anthony L. Burfoot, Vice Mayor
Daun S. Hester
Paul R. Riddick

Dr. Theresa W. Whibley
Donald L. Williams
Barclay C. Winn
W. Randy Wright

MUNICIPAL OFFICIALS

Regina V.K. Williams, City Manager
Steven G. de Mik, Director of Finance
Bernard A. Pishko, City Attorney

BOND COUNSEL

McGuireWoods LLP
Richmond, Virginia

FINANCIAL ADVISOR

Public Financial Management, Inc.
Arlington, Virginia

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All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implications that there has been no change in the affairs of the City since the respective dates as of which information is given herein.

No dealer, broker, salesman or any other person has been authorized by the City or the successful bidders to give any information or to make any representations with respect to the City or Bonds issued thereby, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City or the successful bidders.

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OFFICIAL STATEMENT

Relating to the Issuance of City of Norfolk, Virginia

\$11,900,000
General Obligation Refunding Bonds,
Series 2008A (Tax-Exempt)

\$5,260,000
General Obligation Refunding Bonds,
Series 2008B (Taxable)

THE BONDS

The purpose of this Official Statement, including the financial information contained in Appendix A attached hereto, is to furnish information in connection with the sale by the City of Norfolk, Virginia (the “City”), of its \$11,900,000 General Obligation Refunding Bonds, Series 2008A (Tax-Exempt) (the “2008A Bonds”) and its \$5,260,000 General Obligation Refunding Bonds, Series 2008B (Taxable) (the “2008B Bonds”, and collectively with the 2008A Bonds, the “Bonds”). The Bonds will be general obligations of the City to the payment of which the full faith and credit of the City are pledged. This Official Statement has been authorized by the City for use in connection with the sale of the Bonds.

The City has undertaken in the Ordinance, as hereinafter defined, to comply with the provisions of Rule 15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission (the “SEC”) and as in effect on the date hereof, by providing annual financial information and material event notices required by the Rule. See Appendix C, “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

All financial and other information presented in this Official Statement has been provided by the City from its records except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

DESCRIPTION OF THE BONDS

General

The Bonds shall be dated the date of delivery, and shall be payable in annual installments, subject to prior redemption, on November 1 of each year, beginning with the year 2008, in the principal amounts and at the rates set forth on the inside cover page of this Official Statement. Interest will be payable semi-annually on May 1 and November 1, commencing November 1, 2008. The Bonds are not subject to optional redemption prior to maturity.

BOOK-ENTRY-ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the bonds to The Depository Trust Company, New York, New York (“DTC”), its nominee, Direct Participants (as defined below) or Beneficial Owners (as defined below), confirmation and transfer of beneficial ownership interests in the bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the bonds and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (“NSCC,” “FICC,” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of the actual purchasers of the Bonds (the “Beneficial Owners”) is in turn recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, the Bonds deposited by Direct Participants with DTC is registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and registration in

the name of Cede & Co. or such other nominee does not effect any change in beneficial ownership. DTC has no knowledge of the identities of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identities the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the bond registrar or paying agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC (or its nominee), the City or the bond registrar and paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the bond registrar and paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the bond registrar and paying agent. Under such circumstances, in the event that a successor securities depository is not obtained, the Bonds certificates will be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository).

Neither the City nor the bond registrar and paying agent has any responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to Holders; or (d) any other action taken by

DTC, or its nominee, Cede & Co., as Holder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the Holders of the Bonds mean Cede & Co. and not the Beneficial Owners, and Cede & Co. will be treated as the only holders of the Bonds.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Holders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

AUTHORITY FOR AND PURPOSES OF THE BONDS

The Bonds have been authorized and are being issued pursuant to the Public Finance Act of 1991, Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended (the "Virginia Code"), and Ordinance No. 42,920 adopted by the City Council on December 4, 2007 (the "Ordinance"). The Ordinance authorized the issuance and sale of up to \$34,000,000 in general obligation bonds to refund earlier debt obligations of the City.

PLAN OF REFUNDING

Proceeds of the Bonds will be issued to provide funds to be used to refund the \$17,588,286.05 outstanding principal balance of the Norfolk Redevelopment and Housing Authority's (the "Authority") Taxable Term Loan Revenue Notes, Series 1997 (the "1997 Notes"), issued on February 28, 1997. The 1997 Notes will be redeemed on or about the date of delivery of the Bonds.

The 1997 Notes were issued for purposes of financing the construction of a building containing approximately 180,000 square feet in furtherance of the Authority's Redevelopment Plan for the Downtown North Redevelopment Project, VA R-8. Pursuant to a cooperation agreement with the Authority, the City has been paying most of the debt service on the 1997 Notes. In addition, the City conveyed certain property to the Authority that the Authority pledged to secure the 1997 Notes. Such property will be returned to the City upon the redemption of the 1997 Notes.

SOURCES AND USES

The following tables set forth the anticipated application of the proceeds of the Bonds for the purposes described above:

Series 2008A

Sources of Funds	
Par Amount of Bonds	\$11,900,000
Plus: Net Original Issue Premium	215,321
Plus: DSRF Release	<u>1,111,770</u>
Total Sources	<u>\$13,227,091</u>
Uses of Funds	
Series 1997 Notes Repayment	12,685,394
Issuance Expenses	<u>541,697</u>
Total Uses	<u>\$13,227,091</u>

Series 2008B

Sources of Funds	
Par Amount of Bonds	\$5,260,000
Plus: Net Original Issue Premium	38,762
Plus: DSRF Release	<u>491,421</u>
Total Sources	<u>\$5,790,183</u>
Uses of Funds	
Series 1997 Notes Repayment	5,547,539
Issuance Expenses	<u>242,644</u>
Total Uses	<u>\$5,790,183</u>

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are general obligations of the City and the City's full faith and credit of the City are irrevocably pledged to the payment of principal of, premium, if any, and interest in the Bonds. While the Bonds remain outstanding and unpaid, the City Council is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of, and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

The City has never defaulted in the payment of either principal of, or interest on, any indebtedness.

Bondholders' Remedies in Event of Default

Section 15.2-2659 of the Virginia Code provides that upon affidavit of any owner, or any paying agent therefor, of a general obligation bond in default as to payment of principal or interest, the Governor of the Commonwealth of Virginia (the "Commonwealth") shall conduct a summary investigation. If such default is established to the Governor's satisfaction, the Governor shall order the State Comptroller to withhold all funds appropriated and payable by the Commonwealth to the political subdivision so in default and apply the amount so withheld to payment of the defaulted principal and interest. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659, or its predecessors, Sections 15.1-225 and 15.1-227.61, has ever been issued. Although Section 15.2-2659 has

not been considered by a Virginia court, the Attorney General of Virginia has opined that appropriated funds may be withheld by the Commonwealth pursuant to one of its predecessors, Section 15.1-225. In the fiscal year ended June 30, 2007, the Commonwealth provided \$94,887,236 to the City which was deposited in the City's General Fund.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the United States Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on the Bondholders, including (1) delay in the enforcement of their remedies, (2) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings or (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent." The effect of these and other provisions of the Bankruptcy Code cannot be reliably predicted and may be significantly affected by judicial interpretation.

TAX MATTERS

2008A Bonds (Tax-Exempt)

Opinion of Bond Counsel. Bond Counsel's opinion will state that, under current law and assuming the compliance with the Covenants (as defined below) by and assuming the accuracy of certain representations and certifications of the City and certain other persons and entities, interest on the 2008A Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2008A Bonds), (a) is excludable from the gross income of the owners of the 2008A Bonds for purposes of federal income taxation under Section 103 of the Code and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel observes that interest on the 2008A Bonds may be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations. See Appendix B for the form of the opinion of Bond Counsel.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2008A Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the 2008A Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The City has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes. In delivering its opinion regarding the 2008A Bonds, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of representatives of the City, the Underwriters and other public officials as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2008A Bonds in order for interest on the 2008A Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2008A Bonds and the use of the property financed or refinanced by

the 2008A Bonds, limitations on the source of the payment of and the security for the 2008A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2008A Bonds to the United States Treasury. The tax certificate for the 2008A Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2008A Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2008A Bonds from becoming includible in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the 2008A Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral federal income tax matters with respect to the 2008A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such 2008A Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the 2008A Bonds.

Prospective purchasers of the 2008A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the 2008A Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made to any 2008A Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2008A Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount. The "original issue discount" ("OID") on any 2008A Bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The "issue price" of a 2008A Bond is the initial offering price to the public at which price a substantial amount of such bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the 2008A Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement, but is subject to change based on actual sales. OID on the 2008A Bonds with OID (the "OID Bonds") represents interest that is excludable from gross income for purposes of federal and Virginia income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual

of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and Virginia income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Bond Premium. In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Legislative or Regulatory Action. Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the U.S. Department of the Treasury ("Treasury") and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the 2008A Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving either the 2008A Bonds or other tax-exempt bonds will not have an adverse effect on the tax status or the market price of the 2008A Bonds or on the economic value of the tax-exempt status of the interest thereon.

2008B Bonds (Taxable)

Opinion of Bond Counsel. Bond Counsel's opinion will state that, based on current law, interest on the 2008B Bonds is not excludable from the gross income of the owners of the 2008B Bonds for federal income tax purposes under Section 103 of the Code.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2008B Bonds.

Summary. The following is a summary of certain of the United States federal income tax consequences of the ownership of the 2008B Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein.

This summary is intended as a general explanatory discussion of the consequences of holding the 2008B Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the 2008B Bonds that are "U.S. holders" (as defined below), deals only with 2008B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold 2008B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of 2008B Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a 2008B Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a 2008B Bond that is not a U. S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the 2008B Bonds. The 2008B Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the 2008B Bonds that allocate a basis in the 2008B Bonds that is greater than the principal amount of the 2008B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the 2008B Bonds for an amount that is less than the principal amount of the 2008B Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a 2008B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the 2008B Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the

2008B Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

Sale, and Exchange of 2008B Bonds. Upon a sale or exchange of a 2008B Bond, a holder generally will recognize gain or loss on the 2008B Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2008B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the 2008B Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a 2008B Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the 2008B Bond. In general, if the 2008B Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance. Defeasance of any 2008B Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2008B Bond.

Foreign Investors. Distributions of the 2008B Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2008B Bond generally will be made free of withholding tax, as long as that holder has complied with certain tax identification and certification requirements.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the Internal Revenue Service (Circular 230), the City and its tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion of marketing of the 2008B Bond and the transactions described herein (or in such opinion or other advise); and

Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Virginia Tax Matters

Bond Counsel's opinion also will state that interest on the Bonds is excludable from the gross income of the owners thereof for purposes of income taxation by the Commonwealth. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the Bonds should consult their own tax advisors regarding the tax status of interest on the Bonds in a particular state or local jurisdiction other than Virginia.

PENDING LITIGATION

The City, in the course of doing business, has been named as defendant in certain personal injury cases and suits for property damage.

These suits are being defended by the City Attorney and associated independent counsel retained by the City Attorney, and it is the opinion of the City Attorney that any possible losses in connection with the above pending litigation will not materially and adversely affect the City's financial condition. The City Attorney is also of the opinion that the above pending litigation will not affect the validity of the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of the Bonds or the

interest thereon. There is no pending litigation with respect to the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of such Bonds or the premium, if any, or interest thereon.

RATINGS

The City has requested that the Bonds be rated and has furnished certain information to the rating agencies including information that may not be included in this Official Statement. The Bonds have been rated 'A1' by Moody's Investors Service, Inc. ("Moody's"), 'AA' by Standard & Poor's Ratings Services ("Standard & Poor's"), a division of The McGraw-Hill Companies, Inc., and 'AA' by Fitch Ratings ("Fitch").

The ratings reflect only the views of the respective rating agency. Any explanation of the significance of the ratings may be obtained only from the respective rating agency. Generally, rating agencies base their ratings upon information and materials provided to them and upon investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Standard & Poor's or Fitch. Such action may have an adverse effect on the market price of the Bonds. The City has not undertaken any responsibility after the issuance of the Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

FINANCIAL STATEMENTS

The City's audited general purpose financial statements for the fiscal year ended June 30, 2007, are published in Appendix A with accompanying notes. In addition, Appendix A also includes a report of the City's independent accountants.

CERTIFICATES OF CITY OFFICIALS

Concurrently with the delivery of the Bonds, the City will furnish (1) a certificate, dated the date of delivery of the Bonds, signed by the officers who sign the Bonds, stating that, to the best of their knowledge, no litigation is then pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or the levy or collection of taxes to pay principal, premium, if any, or interest thereon or in any manner questioning the proceedings and authority under which the Bonds are issued and (2) a certificate dated the date of delivery of the Bonds signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement including the Appendices hereto (except in the section entitled "PENDING LITIGATION" or relating to DTC) at the time of acceptance of the proposal for the Bonds and at the date of delivery were and are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The City Attorney will furnish, concurrently with the delivery of the Bonds, a certificate dated the date of delivery of the Bonds stating that no litigation is pending or, to the best of his knowledge, threatened against the City either (1) to restrain or enjoin the issuance or delivery of the Bonds, (2) to question in any manner the authority of the City to issue or the issuance of the Bonds, or the validity of any proceedings authorizing the Bonds or the levy or collection of taxes to pay the Bonds or (3) to question in any manner the boundaries of the City or the title of any officers of the City to their respective offices.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc. of Arlington, Virginia, as Financial Advisor in connection with the issuance and sale of the Bonds. Although Public Financial Management, Inc. has assisted in the preparation of this Official Statement, Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official

Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

SALE AT COMPETITIVE BIDDING

The 2008A Bonds were sold at competitive bidding on January 30, 2008, to BB&T Capital Markets, a division of Scott & Stringfellow (the “2008A Underwriter”). The 2008A Underwriter has supplied the information as to the interest rates and offering prices or yields of the 2008A Bonds as set forth on the inside cover of this Official Statement. If all of the 2008A Bonds are resold to the public at such offering prices or yields, the Underwriter has informed the City that they anticipate a total underwriting compensation of \$26,460.77.

The 2008B Bonds were sold at competitive bidding on January 30, 2008, to Griffin, Kubik, Stephens & Thompson, Inc. (the “2008B Underwriter”). The 2008B Underwriter has supplied the information as to the interest rates and offering prices or yields of the 2008B Bonds as set forth on the inside cover of this Official Statement. If all of the 2008B Bonds are resold to the public at such offering prices or yields, the Underwriter has informed the City that they anticipate a total underwriting compensation of \$14,196.06.

CONTINUING DISCLOSURE

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Agreement, the form of which is set forth as Appendix C to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds to provide certain annual financial information and material event notices required by Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). As described in Appendix C, such undertaking requires the City to provide only limited information at specified times.

The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds. With regards to the past five years, the City is in compliance with the requirements set forth in the Rule.

MISCELLANEOUS

This Official Statement and any advertisement of the Bonds are not to be construed as a contract with the purchasers of the Bonds. Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The references herein to and summaries of federal, Commonwealth and City laws, including but not limited to the Constitution of the Commonwealth, the Virginia Code, the City Charter and documents, agreements and court decisions are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the City Attorney.

Any questions concerning the content of this Official Statement should be directed to the City’s Director of Finance, 600 City Hall Building, Norfolk, Virginia 23510, (757) 664-4346. The distribution of this Official Statement has been duly authorized by the City.

CITY OF NORFOLK, VIRGINIA

/s/ Regina V.K. Williams
City Manager

/s/ Steven G. de Mik
Director of Finance

CITY INDEBTEDNESS

Limitation on Incurrence of Debt

Pursuant to the Constitution of Virginia (the “Constitution”), the City is authorized to issue bonds and notes secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds of the City be subject to approval of the electors of the City at referendum. The issuance of general obligation bonds is subject to a limitation of 10% of the assessed value of taxable real property.

At June 30, 2007, the total assessed value of taxable real property in the City was \$15,496,207,804. Based on Virginia’s constitutional debt limitation formula, this resulted in a debt limit of \$1,549,620,780. As presented in Table II-1, the City’s outstanding general obligation bonds and other tax-secured indebtedness as of June 30, 2007, was \$579,224,191 representing 37.38% of the constitutional debt limit.

Table II-1
City of Norfolk, Virginia
Computation of Legal Debt Margin
June 30, 2007

Total assessed value of taxable real property	\$15,496,207,804
Debt Limit-10 percent of total assessed value	1,549,620,780
Outstanding General Obligation Debt ^{(1) (2) (3) (4) (5) (6)}	<u>579,224,191</u>
Legal Debt Margin	<u>\$ 970,396,590</u>
Amount of debt as a percent of debt limit	37.38%

Source: Comprehensive Annual Financial Report for the Year Ended June 30, 2007.

Notes:

- (1) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (2) Reflects only bonded debt and does not include the City’s capital lease obligations. See Table II-8 for information about the City’s capital lease obligations.
- (3) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued is \$151,614,199.
- (4) Water Revenue Bonds and Parking System Revenue Bonds are excluded from gross debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (5) Includes the remaining balance of \$2,415,000 on a General Obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (6) Includes the 20-year \$13,000,000 Section 108 Loan with HUD supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Debt Outstanding

The tables that follow detail the City's current general obligation debt outstanding. Table II-2 presents the City's gross and net outstanding tax-supported and self-supporting general obligation bonded indebtedness as of June 30, 2007. Table II-3 provides a comparative statement of key debt ratios for the past ten fiscal years and Table II-4 presents the rate of retirement for all general obligation bonds as of June 30, 2007. Table II-5 presents the recent historical relationship between debt service on bonds paid from actual general governmental expenditures for the past ten fiscal years. Table II-6 presents the historical relationship of the City's net bonded debt to assessed value of taxable real property and net bonded debt per capita. Table II-7 provides a statement of future annual debt service requirements on the City's existing general obligation bonds.

Table II-2
City of Norfolk, Virginia
General Obligation Debt Statement ^{(1) (2) (3)}

	<u>As of</u> <u>June 30, 2007</u>
Outstanding Debt	
A. General Fund Bonds.....	
Outstanding Debt ^{(4) (5) (6) (7) (8)}	<u>\$469,498,450</u>
B. Enterprise Fund Bonds ⁽²⁾	
Outstanding Debt.....	<u>\$107,310,741</u>
C. Total General Obligation Bond Indebtedness (A+B)	
Debt.....	<u>\$576,809,191</u>

Source: City of Norfolk, Virginia.

Notes:

- (1) The amount of general obligation bonds authorized by ordinance, but not yet issued, for Capital Improvement Projects is \$151,614,199.
- (2) Water Revenue Bonds and Parking System Revenue Bonds are excluded from enterprise fund debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (3) Reflects only bonded debt and does not include the City's capital lease obligations. See Table II-8 for information about the City's capital lease obligations.
- (4) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (5) Includes the bonded debt of the Storm Water Fund and the Towing and Recovery Fund, which are both special revenue funds.
- (6) Includes the remaining balance of \$2,415,000 on a General Obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (7) There are no overlapping or underlying taxing jurisdictions in the City.
- (8) Includes the 20-year \$13,000,000 Section 108 Loan with HUD supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Table II-3
City of Norfolk, Virginia
Key Debt Trends
Fiscal Years 1998 - 2007

Fiscal Year Ended June 30	Gross Bonded Debt ^{(1) (2) (3)}	Gross Bonded Principal Outstanding Per Capita ⁽⁴⁾	Percent of Gross Bonded Debt to Real Property Assessed Value ⁽⁵⁾
1998.....	\$546,935,001	\$2,410.47	7.18%
1999.....	508,805,001	2,254.34	6.41
2000.....	488,351,541	2,083.38	6.03
2001.....	468,445,246	1,997.63	5.54
2002.....	460,345,861	1,970.66	5.18
2003.....	460,876,270	1,970.40	4.93
2004.....	486,241,680	2,067.35	4.85
2005.....	512,528,634	2,180.31	4.68
2006.....	475,872,461	1,992.50	3.75
2007 ⁽⁶⁾	576,809,191	2,415.13	3.70

Source: Comprehensive Annual Financial Report for Year Ended June 30, 2007.

- Notes:
- (1) There are no overlapping or underlying taxing jurisdictions in the City.
 - (2) Debt payable from Enterprise Fund revenue can be found in Table II-6.
 - (3) The defeased portions of bonds are not included in Gross Bonded Debt. Unamortized premium/discount is not included in Gross Bonded Debt.
 - (4) Gross Bonded Principal Outstanding Per Capita is based on the population figures from Table II-6.
 - (5) Based on the taxable real property assessed value figures from Table III-2.
 - (6) Gross Bonded Principal Outstanding Per Capita for 2007 is based on the population figures for 2006 from Table II-6.

Table II-4
City of Norfolk, Virginia
Principal Retirement
All General Obligation Bonds
As of June 30, 2007

Maturing By Fiscal Year End	Cumulative Amount Matured	Percent of Principal Retired
2012	\$239,684,581	41.55%
2017	386,878,401	67.07
2022	493,870,450	85.62
2027	554,830,850	96.19
2032	562,724,191	97.56
2037	574,804,191	99.65
2038	576,809,191	100.00

Source: Department of Finance, City of Norfolk.

Table II-5
City of Norfolk, Virginia
Ratio of Annual Debt Service to
Total General Governmental Expenditures
Fiscal Years 1998 - 2007

<u>Fiscal Year Ended June 30</u>	<u>Total Debt Service</u> ⁽¹⁾	<u>Total General Expenditures</u> ⁽²⁾	<u>Percent of Debt Service to Total General Expenditures</u>
1998.....	\$54,163,228	\$499,746,145	10.84 %
1999.....	49,744,700	519,198,080	9.58
2000.....	52,627,625	558,439,186	9.42
2001.....	55,926,535	578,776,772	9.66
2002.....	53,484,013	431,283,578	12.40
2003.....	53,258,272	451,633,988	11.79
2004.....	55,000,425	490,944,275	11.20
2005.....	58,971,773	490,923,834	12.01
2006.....	62,750,385	510,999,836	12.28
2007.....	58,045,527	539,491,519	10.76

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

- Notes:
- (1) Includes debt service on general obligation bonds and capital leases payments supported by the General Fund.
 - (2) Total general expenditures are presented using the modified accrual basis of accounting.

Table II-6
City of Norfolk, Virginia
Ratio of Net General Bonded Debt to Assessed Value and
Net Bonded Debt Per Capita
Fiscal Years 1998 - 2007

Fiscal Year Ended June 30	Estimated Population	Assessed Value of Taxable Property (In Thousands)	Gross Bonded Debt	Debt Payable from Enterprise Revenue	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1998	234,700	\$8,668,361	\$546,935,001	\$155,077,914	\$391,857,087	4.52%	\$1,670
1999	234,500	9,054,436	508,805,001	141,668,034	367,136,967	4.05	1,566
2000	234,403	9,325,039	488,351,541	128,007,237	360,344,303	3.86	1,537
2001	234,000	9,728,084	468,445,246	114,528,097	353,917,150	3.64	1,512
2002	233,600	10,204,892	460,345,861	112,049,824	348,296,037	3.41	1,491
2003	233,900	10,742,268	460,876,270	99,220,319	361,655,951	3.37	1,546
2004	235,200	11,483,300	486,241,680	87,635,923	385,609,976	3.47	1,639
2005	235,071	12,439,004	512,528,634	91,085,187	421,008,476	3.38	1,791
2006	238,832	14,332,318	475,872,461	93,099,000	382,773,000	2.67	1,603
2007	N/A	15,496,208	576,809,191	107,310,741	469,498,450	3.03	N/A

Source: The source of calendar year population estimates for 1998 through 1999 is the Weldon Cooper Center for Public Service, University of Virginia. The source for the population figure for 2000 and 2006 is the United States Census.

Table II – 7
City of Norfolk, Virginia
Long-Term Debt Service Requirements ⁽¹⁾

Fiscal Year Ended June 30	Existing General Obligation Debt Service ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾			Plus the 2008 Bonds		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2008	\$50,231,898	\$24,929,663	\$75,161,560			
2009	51,325,614	22,807,166	74,132,781	\$1,855,000	\$724,334	\$2,579,334
2010	47,672,813	20,508,874	68,181,687	1,920,000	532,381	2,452,381
2011	47,406,808	18,590,525	65,997,333	1,845,000	472,941	2,317,941
2012	43,047,449	16,360,074	59,407,523	1,775,000	411,381	2,186,381
2013	35,632,025	14,392,462	50,024,487	1,705,000	349,403	2,054,403
2014	29,771,894	12,817,815	42,589,709	1,635,000	289,272	1,924,272
2015	29,869,115	11,430,443	41,299,558	1,560,000	230,300	1,790,300
2016	27,462,229	10,120,370	37,582,600	1,485,000	172,838	1,657,838
2017	24,458,557	8,926,896	33,385,452	1,410,000	114,831	1,524,831
2018	22,642,558	7,863,935	30,506,493	1,340,000	57,453	1,397,453
2019	22,909,109	6,853,223	29,762,331	630,000	14,569	644,569
2020	22,198,227	5,845,817	28,044,045			
2021	20,063,886	4,891,811	24,955,696			
2022	19,178,269	4,063,717	23,241,985			
2023	17,569,570	3,276,100	20,845,670			
2024	16,088,852	2,574,766	18,663,618			
2025	11,449,395	2,000,307	13,449,702			
2026	8,250,424	1,549,987	9,800,411			
2027	7,602,159	1,239,727	8,841,886			
2028	2,328,341	1,049,484	3,377,825			
2029	1,290,000	974,695	2,264,695			
2030	1,355,000	906,196	2,261,196			
2031	1,425,000	832,875	2,257,875			
2032	1,495,000	756,820	2,251,820			
2033	4,970,000	522,061	5,492,061			
2034	1,650,000	407,466	2,057,466			
2035	1,730,000	318,409	2,048,409			
2036	1,820,000	225,098	2,045,098			
2037	1,910,000	126,255	2,036,255			
2038	2,005,000	23,474	2,028,474			
Totals	<u>\$576,809,192</u>	<u>\$207,186,511</u>	<u>\$783,995,703</u>	<u>\$17,160,000</u>	<u>\$3,369,703</u>	<u>\$20,529,703</u>
						<u>\$804,525,405</u>

Source: Department of Finance

Notes:

- (1) Figures may not sum due to rounding.
- (2) Includes principal payable from the City's enterprise funds.
- (3) Existing General Obligation Debt Service includes self-supporting principal payable from the City's Environmental Storm Water Fund, and Towing and Recovery Fund, both special revenue funds.
- (4) Includes estimated net debt service on the City's General Obligation Variable Rate Demand Bonds, Series 2007, assuming an average interest rate of 3.74%.
- (5) Does not include debt service on the debt to be refunded with the 2008A and 2008B Bonds.

DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES

Overlapping Debt

The City is autonomous from any county, town or other political subdivision. There are no overlapping or underlying taxing jurisdictions with debt outstanding for which City residents are liable.

Short-Term Borrowing

The City has not borrowed on a short-term basis for working capital purposes in the past five fiscal years.

Capital Lease Obligations

The City leases certain buildings and certain computer, automotive, solid waste automation and other heavy equipment, which are recorded at a cost of \$8,296,539. No additions to Capital Leases were recorded, in the fiscal year ended June 30, 2007. The remaining debt service requirements will be retired by funds from the General Fund on the aforementioned contracts as summarized in Table II-8.

Table II - 8
City of Norfolk
Capital Lease Obligations

<u>Year Ending</u> <u>June 30</u>	<u>General</u> <u>Long-Term</u> <u>Obligations</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>	<u>Totals</u>
2008	\$ 3,838,480	\$ 2,878	\$ 3,841,358
2009	2,737,843	2,878	2,740,721
2010	1,434,059	2,878	1,436,937
2011	646,861	2,397	649,258
2012	35,764	---	35,764
Thereafter	<u>17,605</u>	<u>---</u>	<u>17,605</u>
Total minimum lease payments	\$ 8,710,612	\$ 11,031	\$ 8,721,643
Less interest	<u>(414,073)</u>	<u>(808)</u>	<u>(414,881)</u>
	\$ 8,296,539	\$ 10,223	\$ 8,306,762
Less current portion	<u>(3,838,480)</u>	<u>(2,878)</u>	<u>(3,841,358)</u>
	\$ 4,458,059	\$ 7,345	\$ 4,465,404

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

Water Revenue Bonds

Since 1993, and for all future financings, capital improvements of the Water Utility System are anticipated to be financed with revenue bonds. The revenue covenant for these revenue bonds requires the City to establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the water system, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each fiscal year net revenues are not less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund and the repair

and replacement reserve fund. Fiscal year ended June 30, 2007 results reflect compliance with this requirement.

Parking System Revenue Bonds

Since 1997, capital improvements of the Parking Facilities Fund have been financed with revenue bonds. The revenue covenant for these revenue bonds requires the City to establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the parking facilities, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each fiscal year net revenues are not less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Fiscal year ended June 30, 2007 results reflect compliance with this requirement.

Debt History

The City has never defaulted in the payment of either principal of, or interest on, any indebtedness.

Capital Improvement Program Budget

The City has a Capital Improvement Program (CIP) Budget which plans for capital type improvements for a five-year period. This CIP Budget is reviewed and revised annually.

The City approved its fiscal year 2008 CIP Budget on May 15, 2007. The total of the CIP Budget for fiscal year 2007 is \$251,602,000. This includes a \$33,448,022 transfer from the fiscal year 2008 Operating Budget, which reduces the City's reliance on bond financing. Five years of CIP activities have been planned in the approved fiscal years 2008 – 2012 CIP. Future year projects in the CIP Budget are considered for planning purposes only and may be modified, at any time, by the City Council. In addition, the CIP Budget is used by the City as a means of identifying short- and long-term needs and as a guide for identifying various funding sources for future CIP Budgets.

The CIP Budget is developed in coordination with and at the same time as other City budgets. It is prepared for submission by the City Manager to the City Council concurrently with the Proposed Operating Budget. Hearings are held as appropriate, and the final CIP Budget is adjusted with a determination being made of the source and amount of funding to be recommended for each item.

The fiscal year 2008 CIP Budget is summarized in Table II-9. Table II-10 summarizes the CIP for fiscal years 2008 – 2012.

Table II-9
City of Norfolk, Virginia
Capital Improvement Program for Fiscal Year 2008

<u>Uses</u>	<u>Approved Budget FY – 2008</u>
General Capital Projects	\$145,217,000
Parking Fund Projects	49,798,000
Storm Water Fund Projects	3,500,000
Water Fund Projects	29,350,000
Wastewater Fund Projects	23,587,000
Towing and Recovery Fund Projects	<u>150,000</u>
Total Capital Program	<u>\$251,602,000</u>
 Appropriation Source	
General Capital Projects	
From Bond Issue	\$115,868,978
From Cash	29,348,022
Parking Fund Projects	
From Bond Issue	49,198,000
From Parking Facilities Cash	600,000
Storm Water Fund Projects	
From Bond Issue	3,500,000
Water Fund Projects	
From Bond Issue	25,850,000
From Water Fund Cash	3,500,000
Wastewater Fund Projects	
From Bond Issue	23,587,000
Towing and Recovery Fund Projects	
From Bond Issue	<u>150,000</u>
Total Capital Program	<u>\$251,602,000</u>

Source: Capital Improvement Program Budget, Fiscal Year Ended June 30, 2008.

Table II-10
City of Norfolk, Virginia
Capital Improvement Program
Fiscal Years 2008 through 2012

<u>Description</u>	FY-2008	FY-2009	FY-2010	FY-2011	FY-2012	FY 2008 – 2012
	Budget	Plan	Plan	Plan	Plan	Total
GENERAL CAPITAL						
Schools	\$ 2,500,000	\$ 11,897,500	\$ 11,500,000	\$ 2,500,000	\$ 2,500,000	\$ 30,897,500
Non-Schools	142,717,000	109,985,870	85,116,630	48,813,970	29,611,470	416,244,940
TOTAL GENERAL CAPITAL	145,217,000	121,883,370	96,616,630	51,313,970	32,111,470	447,142,440
STORM WATER FUND	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	17,500,000
PARKING FUND	49,798,000	1,010,000	960,000	600,000	600,000	52,968,000
WASTEWATER FUND	23,587,000	17,000,000	13,000,000	12,000,000	17,000,000	82,587,000
WATER FUND	29,350,000	53,550,000	12,650,000	20,700,000	10,630,000	126,880,000
TOWING AND RECOVERY FUND	150,000	0	0	0	0	150,000
TOTAL CAPITAL PROGRAM	<u>\$251,602,000</u>	<u>\$196,943,370</u>	<u>\$126,726,630</u>	<u>\$88,113,970</u>	<u>\$63,841,470</u>	<u>\$727,227,440</u>

Source: Capital Improvement Program Budget, Fiscal Year Ended June 30, 2008.

FINANCIAL INFORMATION

Fiscal Year

The City's fiscal year commences July 1 and closes on June 30.

Reporting Entity

For financial reporting purposes, in accordance with generally accepted accounting principles (GAAP), the City's financial statements include the City of Norfolk (primary government) and its component units.

- The School Board of the City of Norfolk
- The Employees' Retirement System of the City of Norfolk (ERS)
- The Norfolk Community Services Board (NCSB)
- The Norfolk Redevelopment and Housing Authority (NRHA)

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Contact information for such administrative offices can be obtained through contacting the office of the Director of Finance and Business Services of the City.

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

The City's financial statements include the following sections:

- Management's Discussion and Analysis (MD&A).
 - The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- Basic Financial Statements. The Basic Financial Statements include:
 - Government-wide financial statements, consisting of a statement of net assets and a statement of activities;
 - Fund financial statements consisting of a series of statements that focus on information of the government's major governmental, enterprise and fiduciary funds and component units; and
 - Notes to the financial statements provide information essential to a user's understanding of the basic financial statements.
- Required Supplementary Information (RSI). In addition to MD&A, budgetary comparison schedules are presented as RSI along with other types of data as required by GASB.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of

the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 60 days of the end of the fiscal year. Property taxes due and collected within 45 days after year-end are recognized as revenue: those not collected within 45 days after year-end are reported as deferred revenue when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

INDEPENDENT ACCOUNTANTS

Section 99 of the City Charter requires that “...as soon as practicable after the close of each fiscal year an annual audit shall be made of all the accounts of the city offices...by certified public accountants selected by the council...” The firm of McGladrey & Pullen, L.L.P. presently serves as the City’s independent auditors. The audited general purpose financial statements and the financial statements of the enterprise funds for the fiscal year ended June 30, 2007, are published in Appendix A with accompanying notes.

BUDGETARY PROCESS

The City Charter requires that no less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council a proposed balanced operating budget for the ensuing fiscal year that commences July 1. The Public Schools proposed budget is approved by the School Board, transmitted to the City Manager for review and then submitted to the City Council for consideration as part of the City’s general operating budget. The City Council is required to hold a public hearing on the budget at which time all interested persons have the opportunity to comment.

The financial forecast, the first step in the budget process, is an essential component of the annual process of assessing the City’s overall financial condition and looking at its finances in a multi-year context. The primary objective of the financial forecast is to project where current budget decisions lead in terms of future revenue and expenditures and their impact on the City’s financial stability. This, therefore, provides the opportunity to proactively evaluate policies with the goal of maximizing opportunities or, in the worst case, minimizing the negative impact of economic downturns.

The City’s debt practices include self-imposed tax-supported bonding limitations that are employed in financial planning and capital improvement budgeting:

- Debt service payments on net bonded debt (tax-supported debt) not exceeding ten percent of the General Fund budget; and
- Net bonded debt not exceeding three-and-one half percent of the assessed value of taxable real property.

GENERAL GOVERNMENTAL REVENUE

Overview

General governmental revenue is derived from general property taxes, other local taxes, permits, privilege fees and regulatory licenses, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth. General Fund disbursements include the normal recurring activities of the City, such as police, public works, general government, transfers to the School Operating Fund for local share of costs and to the Debt Service Fund to pay principal and interest on the City’s general obligation bonds for other than enterprise fund purposes.

Property Tax Rates, Levies and Collections

An annual ad valorem tax is levied by the City on the assessed value of real property located within the City as of July 1, and on tangible personal property located within the City as of January 1. Real

property taxes are the largest single source of tax revenue. Tax rates are applied to the assessed valuation of property.

The ratio of the assessed value of real property to its estimated fair market value is 100% (other than public service properties). The City taxes several categories of personal property, each of which is assessed on a different basis. Machinery and tools are assessed at 100% of original cost; vehicles and boats are assessed at 100% of certain published loan values; and mobile homes are assessed on the same basis as real property.

The City has the power to levy taxes on property located within its boundaries without limitation as to rate or amount for the payment of its obligations. Rates are established by the City Council. The tax rates approved in the fiscal year 2008 budget, on each \$100 of assessed value, which remain unchanged from the previous fiscal year are: \$1.50 for recreational vehicles; and \$2.40 for airplanes. The tax rates approved in the fiscal year 2008 budget, on each \$100 of assessed value, which changed from the previous fiscal year are: \$1.11 for real property; \$4.25 for personal property; \$4.25 for machinery and tools; and \$1.11 for mobile homes. The rate on personal recreational boats consists of a decal fee of \$10 or \$25 depending on the length of the boat plus a tax of fifty cents per \$100 on the assessed value of the boat. The tax rate for commercial boats is \$1.50 per \$100 of the assessed value of the boat and a boat decal is not required. The tax rate for real property located in the City's Business Improvement District is an additional \$0.18 on the real property rate of \$1.11 per \$100 of assessed value.

Real property levies are payable during the year of assessment in four equal installments, on or before September 30, December 5, March 31 and June 5. Personal property, recreational vehicles, machinery and tools, mobile homes, airplanes and boat levies are payable on or before June 5 of the year assessed or thirty days after acquisition. Certain types of personal property such as automobiles, trucks, motorcycles, trailers and recreational vehicles are prorated throughout the year and payable thirty days after acquisition.

In the event any installment of taxes on any of the properties listed above is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

The City Council may require the sale of real property in satisfaction of delinquent taxes, pursuant to the provisions of Section 89, City Charter.

Other Revenue Sources

The City levies various other local taxes: (1) a 1% local sales tax (collected by the Commonwealth and remitted to the City); (2) a tax on consumer utility bills; (3) a cigarette tax of 65 cents per packet; (4) property transfer recordation taxes; (5) an automobile license tax; (6) various business license/franchise taxes; (7) a hotel and motel tax of 8% and a \$1 per room, per night surcharge of which 1% is dedicated to tourism and economic development; (8) an admissions tax of 10%; and (9) a restaurant food tax of 6.5%, which includes alcoholic beverages of which 1% is dedicated to tourism and economic development.

Fees, Licenses and Permits - The City requires that licenses or permits be obtained for the performance of certain activities and that fees be paid for services provided by certain City departments.

Revenue from the Commonwealth of Virginia - The City receives payments for highway maintenance, a share of the net profits from the State Alcoholic Beverage Control Board liquor sales, a share of state sales taxes allocated for education and, in addition, reimbursement for a portion of certain shared expenses relating to expenditures for such functions as Sheriff's office, Commissioner of the Revenue, City Treasurer, Clerk of the Circuit Court and Commonwealth's Attorney office. The City also receives categorical aid revenue for such purposes as public assistance, education and local law enforcement.

Other Revenue - The primary sources of other revenue to the General Fund include transfers from the Water Utility and Wastewater Utility Funds, interest on investments and impact aid from the federal government. Tables III-1A and III-1B show the City's General Fund revenue by source for each of the last ten fiscal years.

Table III-1A
City of Norfolk, Virginia
Total Revenue by Source, Governmental Funds
Fiscal Years 1998 – 2007
(Amounts in Thousands)

Fiscal Year Ended June 30	General Property Taxes	Other Local Taxes	Permits and Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- Governmental	Total
1998.....	\$147,228	\$106,499	\$2,080	\$1,772	\$9,160	\$18,491	\$15,201	\$14,468	\$98,019	\$412,918
1999.....	147,831	111,212	2,505	1,920	8,785	19,658	18,621	11,139	107,896	429,567
2000.....	152,062	119,107	2,943	1,661	10,275	18,836	13,990	12,338	133,526	464,738
2001.....	153,366	126,537	2,601	1,684	11,361	18,745	13,681	14,135	122,677	464,787
2002.....	159,512	127,262	2,700	1,541	11,247	18,312	12,337	10,008	133,332	476,251
2003.....	168,893	132,847	2,973	1,569	8,791	29,390	24,785	9,556	131,071	509,875
2004.....	178,361	140,675	3,204	1,627	8,333	31,342	17,339	12,297	160,118	553,296
2005.....	193,293	150,477	3,542	1,763	10,232	29,129	18,951	14,188	147,045	568,620
2006.....	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007.....	235,399	159,119	4,071	1,605	11,105	37,071	11,692	8,408	156,638	625,106

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

Table III-1B
City of Norfolk, Virginia
Other Local Tax Revenues by Source, Governmental Funds
Fiscal Years 1998 – 2007
(Amounts in Thousands)

Fiscal Year Ended June 30	Sales and Use Taxes	Consumer's Utility Taxes	Business License Taxes	Motor Vehicle Licenses	Cigarette Taxes	Restaurant Food Taxes	Other	Total
1998	\$21,023	\$33,853	\$14,818	\$3,112	\$4,507	\$15,003	\$14,183	\$106,499
1999	22,602	33,189	15,932	3,308	4,918	15,677	15,586	111,212
2000	24,321	34,224	18,095	3,391	3,940	17,066	18,070	119,107
2001	25,496	38,988	18,352	3,479	4,122	18,759	17,341	126,537
2002	25,267	37,922	18,644	3,554	4,280	19,288	18,307	127,262
2003	25,854	37,930	18,472	3,462	4,220	21,680	21,229	132,847
2004	27,867	39,231	20,279	3,456	7,639	21,808	20,395	140,675
2005	29,497	39,371	22,015	2,605	6,948	22,550	27,491	150,477
2006	30,652	43,337	24,412	3,576	6,819	27,277	21,543	157,616
2007	32,402	42,586	25,268	3,529	6,957	28,578	19,799	159,119

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

Table III-2 sets forth the assessed value of all taxable property in the City for the past ten fiscal years. The total assessed value of all taxable property in the City at June 30, 2007, was approximately \$17.3 billion. The estimated assessed value of tax-exempt properties owned by federal and Commonwealth governments, churches and schools, among others, was approximately \$9.4 billion for fiscal year 2007, and is presented in Table III-3.

Table III-2
City of Norfolk, Virginia
Assessed Valuations and Estimated
Actual Values of Taxable Property
(In Thousands)
Fiscal Years 1998 - 2007

Fiscal Year Ended June 30	Real Property⁽¹⁾	Personal Property⁽¹⁾	Other Property⁽²⁾	Total Taxable Assessed Value	Estimated Actual Taxable Value⁽³⁾
1998	\$7,619,379	\$848,103	\$200,879	\$8,668,361	\$14,673,363
1999	7,934,397	900,076	219,963	9,054,436	15,145,054
2000	8,098,113	1,023,626	203,300	9,325,039	15,668,692
2001	8,458,281	1,040,929	228,874	9,728,084	16,119,540
2002	8,882,064	1,102,983	219,845	10,204,892	16,794,801
2003	9,356,760	1,085,027	300,481	10,742,268	17,864,127
2004	10,029,639	1,170,117	283,544	11,483,300	19,406,095
2005	10,960,812	1,167,673	310,519	12,439,004	21,576,347
2006	12,691,527	1,324,320	316,471	14,332,318	25,196,622
2007	15,607,512	1,375,798	322,971	17,306,281	29,424,339

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

- Note:
- (1) Real property and personal property includes both general and public service corporations.
 - (2) Other property includes machinery and tools, mobile homes, airplanes and boats.
 - (3) Estimated actual taxable property values are based on data supplied by the City's Commissioner of Revenue and the City Assessor. Property value information does not include property of public service corporations or vacant land.

Table III-3
City of Norfolk, Virginia
Estimated Value of Nontaxable Real Property ⁽¹⁾
Fiscal Years 2003 - 2007
(In Thousands)

Fiscal Year Ended June 30	Property Owned By											
	Federal Government		City of Norfolk		Norfolk Redevelopment and Housing Authority		Commonwealth of Virginia		All Other Organizations ⁽²⁾		Total	
	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value		
2003....	\$3,668,046	\$51,353	\$1,488,049	\$20,833	\$392,020	\$5,488	\$638,036	\$8,933	\$1,199,413	\$16,792	\$7,385,564	\$103,399
2004....	4,116,089	57,625	1,494,691	20,926	382,610	5,357	689,933	9,659	1,241,480	17,381	7,924,803	110,948
2005....	4,138,358	57,937	1,706,337	23,889	392,982	5,502	711,361	9,957	1,350,116	18,902	8,299,155	116,188
2006....	4,581,576	61,851	1,718,375	23,198	465,660	6,286	769,584	10,389	1,439,067	19,427	8,974,261	121,153
2007....	4,672,997	59,347	1,837,974	23,342	513,373	6,520	814,505	10,344	1,539,360	19,550	9,378,209	119,103

Sources: Annual Reports of the City Assessor 2003 - 2007.

Notes: (1) The assessed value was 100% of fair market value. The fiscal year 2007 estimated tax value is at a rate of \$1.27 per \$100 of estimated assessed value.

(2) All other organizations include religious organizations, charitable organizations, private universities, Virginia Port Authority, Elizabeth River Tunnel Commission, Hampton Roads Sanitation District and Eastern Virginia Medical Authority.

Table III-4 presents the property tax rate per \$100 of assessed value and the equalization ratios used to determine the fair market value of taxable property for the past five fiscal years ended June 30.

Table III-4
City of Norfolk, Virginia
Tax Rates and Equalization Factors
Fiscal Years 2003 - 2007

	Fiscal Year Ended June 30				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Property tax rate per \$100 assessed value:					
Real property.....	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.35	\$1.27
Business Improvement District.....	0.18	0.18	0.18	0.18	0.18
Personal property.....	4.00	4.00	4.00	4.00	4.00
Machinery and tools.....	4.00	4.00	4.00	4.00	4.00
Mobile homes.....	1.40	1.40	1.40	1.35	1.27
Airplanes.....	2.40	2.40	2.40	2.40	2.40
Boats (business).....	1.50	1.50	1.50	1.50	1.50
Boats (pleasure).....	0.01	0.01	0.01	0.01	0.01
Recreational vehicles.....	1.50	1.50	1.50	1.50	1.50
Disabled veterans.....	3.00	3.00	3.00	3.00	3.00
Assessed value of real property as a percent of fair market value:					
As determined by the City Assessor.....	100%	100%	100%	100%	100%
As determined by the Commonwealth's Department of Taxation ⁽¹⁾⁽²⁾	80%	74%	76%	--	--

Source: City of Norfolk, Virginia

- Notes: (1) The most recent Virginia Assessment/Sales Ratio Study is for 2005.
(2) The real property and personal property assessments for public service corporations are based on information furnished to the Commissioner of the Revenue by the State Corporation Commission and the Commonwealth's Department of Taxation for calendar years 2002 through 2006.

The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. Table III-5 sets forth the City's assessed values and tax levies on real and personal property for each of the past five fiscal years ended June 30.

Table III-5
City of Norfolk, Virginia
Assessed Valuation and Change in Property Tax Levy
Fiscal Years 2003 – 2007
(In Thousands)

Fiscal Year Ended June 30	<u>Assessed Valuation</u>		<u>Property Tax Levy</u>	<u>Percentage Increase in Property Tax Levy</u>
	<u>Real Property</u>	<u>Personal Property & Other</u>		
2003.....	9,356,760	1,385,508	179,220	4.35%
2004.....	10,029,639	1,453,661	191,397	6.79
2005.....	10,960,812	1,478,192	209,202	9.30
2006.....	12,691,527	1,640,791	227,796	8.89
2007.....	15,607,512	1,698,769	254,703	11.81

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

Table III-6 sets forth information concerning the City's real and personal property tax collection rate for fiscal years ended June 30, 1998 through 2007.

Table III-6
City of Norfolk, Virginia
Real and Personal Property Tax Levies and Collections ⁽¹⁾
Fiscal Years 1998 – 2007
(In Thousands)

Fiscal Year Ended June 30	Total Tax Levy	Percent of Current Collections	Current collections to Tax Levy	Delinquent Collections	Total Collections	Percentage of Total Tax Collections to Tax Levy
1998	\$144,794	\$134,889	93.16%	\$10,727	\$145,616	100.57%
1999	150,747	136,668	90.66	11,068	147,736	98.00
2000	158,268	145,772	92.10	14,865	160,637	101.50
2001	164,289	151,921	92.47	13,501	165,422	100.69
2002	171,755	158,914	92.52	12,883	171,797	100.02
2003	179,220	164,482	91.78	18,724	183,206	102.22
2004	191,397	178,200	93.10	15,821	194,021	101.37
2005	209,202	191,254	91.42	8,549	199,803	95.51
2006	227,796	203,804	89.47	8,526	212,330	93.21
2007	254,703	239,288	93.95	10,097	249,385	97.91

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

Note: (1) Delinquent tax collections are reported in the year collected.

Table III-7 sets forth the City's ten largest taxpayers and the assessed value of real property owned by each such taxpayer during fiscal year 2007. The aggregate assessed value of the ten largest taxpayers represented 5.59% of the City's total assessable base at June 30, 2007.

Table III-7
City of Norfolk, Virginia
Ten Principal Real Property Taxpayers ⁽¹⁾
June 30, 2007

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Real Property Assessed Value</u>	<u>Percentage of Total Real Property Assessed Value</u>
MacArthur Shopping Center LLC (Taubman Co.)	Retail	\$164,793,100	1.06%
Virginia Power Co.	Public Service Utility	140,314,736	0.90
Verizon Virginia, Inc.	Public Service Utility	114,147,696	0.73
Bank of America	Bank	81,573,800	0.52
Ford Motor Company	Truck Manufacturer	81,445,000	0.52
Norfolk Southern Corporation	Railroad	77,775,444	0.50
Military Circle Ltd. Partnership	Shopping Center	63,475,500	0.41
Dominion Tower Ltd. Partnership	Real Estate	54,220,500	0.35
Cox Virginia Telecom	Public Service Utility	49,858,200	0.32
Norfolk Hotel Association (Marriott)	Service	44,688,400	0.29
Total Principal Taxpayers		<u>\$872,292,376</u>	<u>5.59%</u>

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

- Notes: (1) Total assessed value of taxable real property including public service corporations at June 30, 2007 was \$15,607,511,904.
- (2) The Ford Motor Company closed its Norfolk assembly plant in June, 2007.

GENERAL FUND EXPENDITURES

Costs of General City Government

The costs of most general government functions are paid from governmental funds. These costs include expenditures for police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. Table III-8 presents the number of positions budgeted for employees (including salaries and related employee benefits such as health insurance and pension contributions).

Table III-8
City of Norfolk, Virginia
Budgeted Positions
Fiscal Years 2004 - 2008

<u>Fiscal Year</u>	<u>Number of Budgeted Positions</u> ⁽¹⁾
2004.....	3,929
2005.....	3,934
2006.....	3,969
2007.....	4,079
2008.....	4,090

Sources: Approved Operating Budgets, Fiscal Years 2004 through 2008.

Note: (1) Figures shown represent the number of permanent and permanent part-time General Fund positions, exclusive of School Board positions.

Protected Self-Insurance Program

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 11, 1978, the City established a protected Self-Insurance Program Fund, pursuant to an ordinance adopted by the City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims and related expense payments made during Fiscal Year 2007 was \$7,466,244.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

At June 30, 2007, these liabilities were \$25,066,660 of which \$5,222,145 represents the current portion anticipated to be paid within a year. Estimated liabilities, as determined by an actuary, are reported at their present value, using the expected future investment yield assumption of five percent.

The City has designated \$5,740,162 of fund balance in its General Fund to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in the program and its projected present value assuming a discount rate of five percent liability at June 30, 2007 was \$1,712,585. It also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

Retirement Plan

The City has a single-employer noncontributory, defined benefit retirement plan that covers substantially all employees of the City, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. The City's contribution requirements are designed to fund the plan's current service cost. Actuarially required contributions are appropriated each year by City Council.

Total annual pension contributions for all City employees over the last five years to the City's noncontributory retirement are presented in Table III-9.

Table III-9
City of Norfolk, Virginia
Schedule of Annual Pension Contributions
Fiscal Years 2003 - 2007 ⁽¹⁾

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual Pension</u> <u>Contribution</u>
2003	\$17,046,924
2004	23,469,744
2005	23,652,756
2006	25,728,228
2007	25,135,944

Source: Comprehensive Annual Financial Report for the fiscal year Ended June 30, 2007.

Note: (1) Actuarially required Pension Contributions are funded and paid in the Fiscal Year following the contribution determination.

Other Post-Employment Benefits

In June 2004, the Government Accounting Standard Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which the City of Norfolk will be required to implement with respect to its financial statements for fiscal year 2008. GASB 45 establishes new standards as to how the City must account for and report the costs of its OPEB - health insurance, life insurance, and other non-pension benefits provided to its retirees.

GASB 45 requires that the City and Schools recognize the costs of their OPEB during the period of their employee's active employment, while the benefits are being earned, and disclose their unfunded actuarial accrued liability in order to accurately report the total future cost of post-employment benefits and the financial impact on the City. These GASB 45 requirements are very similar to those for pension benefits.

The following steps have been taken to date, in preparation for the implementation of GASB 45:

- The City and Schools have obtained preliminary actuarial valuation reviews of their respective OPEB liabilities as of October 1, 2004.
- City and Schools managements have reviewed the preliminary results of the actuarial valuation reports and have presented the results to their respective governing bodies.
- OPEB funding options and benefits are currently being analyzed and evaluated by the City Council and the City School Board.

The actuarial consultants determined the City's and Schools' unfunded actuarial accrued OPEB liabilities assuming the establishment of an employer benefit trust were approximately \$51.4 million and \$86.1 million as of October 1, 2004, and the annual required contributions to OPEB trusts would have been approximately \$5.5 million and \$9.5 million, respectively. These annual required contributions include the amounts currently funded with pay-as-you-go financing and do not represent entirely new funding requirements. The pay-as-you-go amount for the twelve months ending March 2007, where retiree medical costs exceeded premiums paid was approximately \$1.5 million and \$2.1 million for the City and Schools, respectively.

Employee Relations and Collective Bargaining

The Supreme Court of Virginia has ruled that in the absence of legislation, municipalities and school boards in Virginia do not have the authority to enter into collective bargaining agreements.

PUBLISHED FINANCIAL INFORMATION

The City issues and distributes a Comprehensive Annual Financial Report on its financial operations for each fiscal year. The City also publishes annually an Operating Budget and a five-year Capital Improvement Program (CIP) Budget. These documents are available via the internet at www.norfolk.gov. In addition, the City will undertake to provide or cause to be provided certain Annual Financial Information described in the section "CONTINUING DISCLOSURE" to fulfill the requirements of the Rule promulgated by the SEC.

GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2007

On the budgetary basis of accounting, General Fund revenues were \$786,967,333 representing 101.5% of budgeted revenue. General Fund expenditures were \$774,520,571 representing 99.9% of budgeted expenditures. Table III-10 summarizes key financial results.

Table III-10
City of Norfolk, Virginia
General Fund Operating Budget Summary Results
for the Fiscal Year 2007

	Fiscal Year 2007 <u>Final Budget</u>	Fiscal Year 2007 <u>Results</u>	Percent of <u>Budget</u>	Variance Positive (Negative)
Total Revenue and non-revenue receipts	\$ 775,029,824	\$ 786,967,333	101.5 %	\$ 11,937,509
Total Expenditures	\$ 775,029,824	\$ 774,520,571	99.9 %	\$ 509,253
Revenue greater (less) than expenditures	\$ ----	\$ 12,446,762	---	\$ 12,446,762

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

General Fund Operating Budget for Fiscal Year 2008

The Fiscal Year 2008 General Fund Operating Budget was adopted on May 15, 2007, and totals \$795,835,700 reflecting a 2.7% increase over the adopted Fiscal Year 2007 General Fund Operating Budget of \$775,029,824. Real estate tax revenues, the largest general property tax source, are estimated to grow by approximately 2.2% in fiscal year 2008 over the previous year. The real estate tax rate was decreased to \$1.11 per \$100 of assessed value. Hotel tax revenues are expected to be approximately \$7.4 million and sales and use taxes are projected to grow 10% over the previous fiscal year to \$34.1 million. Revenues from the Commonwealth of Virginia, mostly for education are anticipated to grow 2.0% or \$5.3 million. The budget anticipates carrying over \$8.7 million of the General Fund balance from fiscal year 2007 to fiscal year 2008 as part of the operating budget.

The budget focuses on targeted priorities including education, public safety, neighborhood revitalization and human services. Major revenue and expenditure categories are summarized in the following tables.

Table III-11
City of Norfolk, Virginia
General Fund Budget
for the Fiscal Year July 1, 2007 through June 30, 2008

<u>Anticipated Revenue Receipts</u>	<u>Approved Budget</u>	<u>Appropriations For Expenditures</u>	<u>Approved Budget</u>
General Property Taxes	\$ 234,990,000	Legislative	\$ 4,232,700
Other Local Taxes	156,234,500	Executive	5,371,700
Permits and Fees	4,012,700	Department of Law	3,788,100
Fines and Forfeitures	1,525,000	Constitutional Officers	5,166,100
Use of Money and Property	8,534,700	General Management	95,109,100
Charges for Services	23,873,000	Judicial	44,960,600
Miscellaneous Revenue	4,295,000	Office of Elections	581,800
Non-Categorical Aid - Virginia	34,942,800	Community Development	6,845,100
Shared Expenses	21,465,800	Parks, Recreation and Cultural	38,863,100
Categorical Aid - Virginia	271,419,100	Public Health and Assistance	66,977,400
Federal Aid	6,247,000	Public Safety	94,704,900
Recovered Costs	9,584,700	Public Works	43,194,400
Other Sources and Transfers in	18,711,400	Debt Service	71,333,000
		Education	314,707,700
TOTAL	\$ 795,835,700	TOTAL	\$ 795,835,700

Source: Approved Operating Budget for Fiscal Year 2008.

Table III-12
City of Norfolk, Virginia
General Governmental Expenditures by Function
Fiscal Years 1998 - 2007
(In Thousands)

<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u>	<u>General</u> <u>Government</u> <u>Administration</u>	<u>Judicial</u> <u>Admin-</u> <u>istration</u>	<u>Public</u> <u>Safety</u>	<u>Public</u> <u>Works</u>	<u>Health</u> <u>and Public</u> <u>Assistance</u>	<u>Education</u>	<u>Culture</u> <u>and</u> <u>Recreation</u>	<u>Community</u> <u>Development</u>	<u>Debt</u> <u>Service</u>	<u>Inter-</u> <u>Govern-</u> <u>mental</u>	<u>Capital</u> <u>Outlay</u>	<u>Total</u>
1998	\$43,942	\$8,336	\$91,001	\$29,475	\$60,788	\$75,446	\$38,750	\$16,970	\$49,587	\$ 8,203	\$37,296	\$459,794
1999	42,499	8,046	94,113	34,153	64,993	82,039	46,186	19,627	45,685	6,923	35,263	479,527
2000	50,770	8,969	96,542	36,792	72,609	79,033	45,088	22,970	48,399	5,950	17,912	485,034
2001	50,671	7,987	101,523	36,817	56,967	80,883	46,032	22,549	51,121	7,807	27,488	489,845
2002	44,126	8,790	115,912	56,124	61,601	83,883	40,849	16,945	48,637	7,932	30,516	515,315
2003	64,639	9,280	123,202	57,162	68,140	88,854	40,149	17,673	48,448	8,061	37,770	563,378
2004	76,127	35,603	94,979	80,613	76,221	90,020	40,081	8,048	49,551	6,140	45,026	602,409
2005	67,434	38,110	102,278	64,497	83,451	91,865	40,290	12,716	65,468	--	85,144	651,253
2006	92,062	41,795	105,634	46,959	91,535	92,595	42,995	13,552	56,462	--	91,632	675,221
2007	102,031	45,173	108,565	49,161	93,397	97,595	46,397	11,158	54,789	--	94,595	702,860

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007.

RESULTS OF FINANCIAL OPERATIONS

A comparative balance sheet at June 30, 2007 and 2006 extracted from the June 30, 2007 Comprehensive Annual Financial Report for the General Fund is presented in Table III-13. The Comparative Statement of Revenue and Expenditures for the City's General Fund for the past five fiscal years are presented in Table III-14. The City's most recent General Fund statements of changes in fund balances for the past five fiscal years are summarized in Table III-15.

Table III-13
City of Norfolk, Virginia
Balance Sheet, General Fund
June 30, 2007 with comparative totals for 2006

ASSETS	<u>2006</u>	<u>2007</u>
Cash and cash equivalents	\$ 51,622,665	\$ 64,939,509
Investments	---	---
Receivables, net:		
Taxes.....	32,469,995	60,097,267
Accounts.....	1,860,949	1,751,147
Notes.....	91,586	70,039
Accrued investment income	535,398	578,138
Due from other funds.....	7,135,658	4,078,974
Receivable from other governments	31,244,227	6,247,095
Deposit Contractors	---	200,000
Total assets	<u>\$ 124,960,478</u>	<u>\$ 137,962,169</u>
 LIABILITIES		
Vouchers/Accounts Payable	\$ 7,408,293	\$ 9,055,225
Employee withholdings	675,807	702,930
Accrued payroll.....	4,069,898	3,918,780
Due to other funds.....	2,951,509	1,663,068
Due to component units	---	28
Deferred revenue.....	24,833,977	30,750,087
Other liabilities	2,344,662	3,592,630
Total liabilities	<u>\$ 42,284,146</u>	<u>\$ 49,682,748</u>
 FUND BALANCES		
Reserved for:		
Encumbrances.....	\$ 15,377,058	\$ 16,602,919
Retirees, life insurance.....	680,000	620,000
Unreserved, reported in:		
General Fund – Designated future expenditures.....	\$ 30,217,662	\$ 32,305,011
General Fund - Undesignated	36,401,612	38,751,491
Total fund balances.....	<u>82,676,332</u>	<u>88,279,421</u>
Total liabilities and fund balances	<u>\$ 124,960,478</u>	<u>\$ 137,962,169</u>

Source: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2007 and June 30, 2006.

Table III-14
City of Norfolk, Virginia
Comparative Statement of Revenue and Expenditures, General Fund ⁽¹⁾
Fiscal Years 2003 - 2007

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
REVENUE:					
General property taxes	\$ 168,892,719	\$ 178,360,554	\$ 192,894,904	\$ 210,595,835	\$ 233,112,175
Other local taxes	128,453,471	135,913,691	141,510,674	148,336,907	149,792,683
Permits and licenses	2,972,611	3,204,071	3,541,516	4,088,238	4,071,084
Fines and forfeitures	1,569,454	1,626,731	1,763,078	1,461,418	1,568,816
Use of money and property	6,785,960	6,314,660	7,154,235	7,069,758	7,220,387
Charges for services	11,642,327	12,449,529	14,829,244	16,877,536	18,083,478
Miscellaneous	5,032,482	4,505,314	5,196,567	5,925,598	4,100,316
Recovered costs	9,556,223	12,296,915	14,187,852	12,666,645	8,337,397
Intergovernmental	102,846,522	129,148,556	113,534,988	117,797,242	125,574,811
Total Revenue	<u>\$ 437,751,769</u>	<u>\$ 483,820,021</u>	<u>\$ 494,613,058</u>	<u>\$ 524,819,177</u>	<u>\$ 551,861,147</u>
EXPENDITURES:					
General government	\$ 46,919,852	\$ 64,390,732	\$ 65,578,006	\$ 88,834,205	\$ 101,191,123
Judicial administration	7,345,727	35,260,950	37,456,654	40,889,147	44,115,143
Public safety	116,996,697	86,236,346	91,464,166	93,709,757	96,884,619
Public works	43,680,181	67,255,473	50,256,206	34,276,568	36,775,654
Health and public assistance	49,758,505	58,326,033	61,696,267	65,666,065	65,364,955
Culture and Recreation	31,959,153	31,858,823	32,108,630	32,833,720	37,332,038
Education	88,853,663	90,020,000	91,864,910	92,594,910	97,594,910
Community development	17,672,800	8,048,376	7,125,756	6,468,840	6,182,579
General services	---	---	---	---	---
Total Expenditures	<u>\$ 403,186,578</u>	<u>\$ 441,396,733</u>	<u>\$ 437,550,595</u>	<u>\$ 455,273,212</u>	<u>\$ 485,441,021</u>
Excess of (deficiency) revenue over expenditures	<u>34,565,191</u>	<u>42,423,288</u>	<u>57,062,463</u>	<u>69,545,965</u>	<u>66,420,126</u>
Other financing sources (uses):					
Proceeds from sale of land	\$ 29,046	\$ 342,076	\$ ---	\$ ---	\$ ---
Proceeds of capital leases	7,503,072	4,430,252	4,701,516	4,828,468	---
Capital contributions	410,715	---	---	---	---
Transfers in	10,044,504	10,449,842	11,103,036	11,835,850	11,824,628
Transfers out	(62,412,483)	(58,553,596)	(63,365,438)	(71,712,560)	(72,641,665)
Total Other Financing Sources (Uses)	<u>\$ (44,425,146)</u>	<u>\$ (43,331,426)</u>	<u>\$ (47,560,886)</u>	<u>\$ (55,048,242)</u>	<u>\$ (60,817,037)</u>
Special Items:					
Write off of uncollectible FEMA Grant			(3,113,624)	---	---
Total Other Financing Sources (Uses) and Special Items			<u>(50,674,510)</u>	<u>(55,048,242)</u>	<u>---</u>
Net Change in Fund Balance	<u>\$ (9,859,955)</u>	<u>\$ (908,138)</u>	<u>\$ 6,387,953</u>	<u>\$ 14,497,723</u>	<u>\$ 5,603,089</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2003 through 2007.

Table III-15
City of Norfolk, Virginia
Comparative Statement of Changes in Fund Balance, General Fund
Fiscal Years 2003 - 2007

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
Net Change in Fund Balance	\$ (9,859,955)	\$ (908,138)	\$ 6,387,953	\$ 14,497,723	\$ 5,603,089
Fund balance at beginning of year	67,966,507	58,106,552	61,790,656	68,178,609	82,676,332
Adjustment to beginning balance	---	4,901,561	---	---	---
Fund Balance at end of year	<u>\$ 58,106,522</u>	<u>\$ 62,099,975</u>	<u>\$ 68,178,609</u>	<u>\$ 82,676,332</u>	<u>\$ 88,279,421</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2003 through 2007.

ENTERPRISE FUNDS

WATER UTILITY FUND

Overview

The City-owned water system (the “Water System”), operated through its Department of Utilities, is one of the largest municipal water systems in the Commonwealth. The approximately 800,000 people served by the Water System are distributed throughout the City, the Naval bases in the Cities of Norfolk and Virginia Beach, and residents of the Cities of Virginia Beach and Chesapeake. A Naval base in the City of Portsmouth is provided raw water service. The distribution of average metered consumption in the fiscal year ended June 30, 2007, is shown in Table IV-1.

Table IV-1
City of Norfolk, Virginia
Water System
Average Metered Consumption by Customer
Fiscal Year 2007

<u>Customer</u>	<u>Metered Consumption (MGD)</u>	<u>Percent of Total</u>
Norfolk	18.10	27.30%
Virginia Beach	35.50	53.55
U.S. Navy	4.67	7.05
Chesapeake	<u>8.02</u>	<u>12.10</u>
	66.29	100.00%

Source: Department of Utilities.

As of June 30, 2007, the Water System had 65,700 active accounts. The average annual daily amount of finished water pumped for fiscal year 2007 was 66.65 mgd (million gallons per day). Average day production includes approximately 3.95 mgd of unaccounted for water such as losses, water used for fire protection and the flushing of water mains. For fiscal year 2006, the System's unaccounted for water level was approximately 5.8% which is within the American Water Works Association acceptable levels.

Prior to fiscal year 1998, Virginia Beach's water use was restricted due to concerns about exceeding the safe yield of the Water System's sources. Due to its rapid population growth since the 1950s, combined with recurring water shortages, Virginia Beach constructed a 76 mile pipeline from Lake Gaston in Brunswick County, Virginia to the Water System through which raw water from Lake Gaston is conveyed, treated by Norfolk and then delivered to Virginia Beach. With the completion of the Lake Gaston Pipeline in fiscal year 1998, the conservation restrictions on Virginia Beach's water use have been lifted, except in times of drought.

Wholesale Contracts

A significant portion of the Water System's revenue is derived from wholesaling water to the Cities of Virginia Beach, Portsmouth, and Chesapeake and the U.S. Navy. The City has wholesale contracts with the U.S. Navy and Virginia Beach. In the absence of a wholesale contract, the City of Chesapeake purchases treated water from the City at an equivalent Norfolk retail rate. If a wholesale contract between the City of Chesapeake and the City is executed, the City anticipates the City of Chesapeake will continue to purchase treated water from the City at retail rates. The City also has executed a contract with the City of Chesapeake and began delivering 7 mgd of raw water in fiscal year 2006. In addition, the City has a contract with Virginia Beach for wheeling and treating Lake Gaston water and a contract with Portsmouth for the sale of emergency raw water.

Financial Management

On July 1, 1979, the City Council established the Water Utility Fund as a distinct enterprise fund to account for all of the financial activity related to providing water services to its customers. Since its inception, the Fund has operated on a self-supporting basis.

Historically, regular annual transfers have been made from the Water Utility Fund to the City's General Fund for payments-in-lieu of taxes and as a return on the City's investment in the Water System. Additionally, transfers have been made to pay all debt service on general obligation bonds issued by the City prior to the creation of the water revenue bond program in 1993 to pay for Water System improvements. The City intends to pay for all future Water System capital costs from revenue of the Water System and proceeds of water revenue bonds. The Water Utility Fund is reported on an accrual basis of accounting.

Water Rates

Retail rates are set by City Council. Effective in Fiscal Year 2004, the City Council established retail rates as follows:

<u>Fiscal Year</u>	<u>Retail Rate</u>
2008	\$3.50 per 100 cubic feet
2009	\$3.61 per 100 cubic feet
Thereafter	3.5% annual increases each July 1

U.S. Navy and Chesapeake wholesale rate revisions for inclusion in City Ordinances are approved by City Council. Virginia Beach formula driven biennial wholesale rate revisions are not submitted for City Council approval. In order to encourage conservation, the current rate structure is a uniform rate per thousand gallons, with no quantity discount. Retail customers are charged a monthly service charge.

WASTEWATER UTILITY FUND

The City owns and operates a sanitary sewer system (Sewer System) which collects and conveys wastewater to the regional processing agency, the Hampton Roads Sanitation District. Approximately 63,000 accounts located within the City are served. Since July 1, 1983, the Wastewater Utility Fund has been operated as an enterprise fund.

As of June 30, 2007:

Approximate population served	65,700	accounts
Total wastewater pumping stations	127	pump stations
Miles of gravity wastewater mains	816	miles
Miles of wastewater force mains	63	miles

City general obligation debt issued to finance wastewater utility projects is carried as a liability on the Wastewater Utility Fund balance sheet. The Wastewater Utility Fund provides the funds for debt service on such bonds.

Each customer using the City sanitary sewer system is charged at a rate based on the flow through an effluent meter. In the absence of an effluent meter, the water meter flow is used. Rates are set by City Council. Effective in Fiscal Year 2005, the City Council established retail rates as follows:

<u>Fiscal Year</u>	<u>Retail Rate</u>
2008	\$2.78 per 100 cubic feet
2009	\$2.89 per 100 cubic feet
Thereafter	4% annual increases each July 1

PARKING FACILITIES FUND

The City presently owns and operates 14 multi-level parking garages, 14 surface lots and 600 on-street spaces. These facilities provide a total inventory of over 19,000 downtown parking spaces.

The Parking Facilities Fund was established in fiscal year 1991. City general obligation debt issued to finance Parking Facilities Fund projects is carried as a liability on the Parking Facilities Fund's balance sheet. The Division of Parking provides the funds for debt service on such bonds. The Parking Facilities Fund balance sheet on June 30, 2007, presents total assets of \$155,833,766 which includes restricted investments of over \$5.3 million to be utilized for garage construction and required master indenture reserves. In addition, fixed assets, including parking structures, consist of over \$130 million of the total \$155.8 million in assets. The Parking Facilities Fund also manages parking enforcement operations and collects fines and delinquent fees. The annual volume of parking tickets is approximately 82,070. In fiscal year 2007, 82,070 tickets were issued resulting in 77% collection rate and revenue of \$2,282,917.

Transfers have been made from the Parking Facilities Fund to the Debt Service Fund to pay all debt service on general obligation bonds issued by the City to pay for Parking System improvements. The City intends to pay for all future parking related capital costs from revenue of the Parking System and proceeds of Parking System revenue bonds.

THE CITY OF NORFOLK

INTRODUCTION

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City lies at the mouth of the James and Elizabeth Rivers and the Chesapeake Bay, and is adjacent to the Atlantic Ocean and the cities of Virginia Beach, Portsmouth and Chesapeake.

Table V-1
City of Norfolk, Virginia
Area of City

<u>Year</u>	<u>Square Miles</u>
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
2000	65.98
2008	65.98

CITY GOVERNMENT

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from a charter (the "Charter"), originally adopted by the General Assembly of Virginia (The "General Assembly") in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City. Having sought and gained approval from the U.S. Justice Department and the General Assembly, the City gave its citizens the right to elect their Mayor directly, effective May 2006. Previously the City's Mayor had been chosen by the City Council from among its members. This change adds an eighth member to the City Council, with the Mayor elected at large, and retains the current seven wards with two members elected from City-wide super wards. The City Council elects a Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out its policies, directs business procedures and appoints, with the power to remove, the heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions. The City Council also appoints certain boards, commissions and authorities of the City.

Certain Elected Officials

The City's current elected officials include:

Paul D. Fraim, Mayor

In May 2006 Mayor Fraim became the City's first popularly elected mayor in nine decades. Mayor Fraim is a 20-year incumbent on City Council, and was first elected Mayor by his peers in 1994. He is the president of the law firm Fraim & Fiorella, P.C., and was first elected to City Council in 1986. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and a Masters in Education degree from the University of Virginia, Charlottesville, Virginia. He received his law degree from the University of Richmond, Richmond, Virginia. Mayor Fraim is an active member of the Virginia State Bar, the Virginia Bar Association and the Norfolk-Portsmouth Bar Association and has held a number of leadership positions in these organizations.

Anthony L. Burfoot, Vice Mayor

Mr. Burfoot, representing Ward 3, was first elected to City Council in July 2002. He is employed by New York Life as a licensed Life and Annuities Health Agent. Additionally, he is an adjunct faculty member at Tidewater Community College. He received a Bachelor of Science degree in Public Administration and a Master's degree in Educational and Administrative Supervision from Virginia State University, Petersburg Virginia. He is involved in many civic and business activities.

Daun S. Hester, Council Member

Mrs. Daun Hester, representing Super Ward 7, was first elected to City Council in July 1996. Mrs. Hester is currently a consultant with Hester, Hester & Associates, Ltd.. She received a Bachelor of Science degree from Virginia State University, Petersburg, Virginia, and a Master of Arts degree in Education and Human Development from The George Washington University, Washington, D.C. Mrs. Hester is active in many local professional organizations.

Paul R. Riddick, Council Member

Mr. Riddick, representing Ward 4, was first elected to City Council in July 1992. He is the owner and operator of Riddick Funeral Service. He attended Norfolk State University, Norfolk, Virginia, and has an Associates in Art and Sciences degree in Funeral Service from John Tyler Community College, Chester, Virginia. Mr. Riddick is active in many local professional organizations.

Dr. Theresa W. Whibley, Council Member

Dr. Whibley, representing Ward 2, was first elected to City Council in July 2006. She is an obstetrician and gynecologist in private practice at Woman Care Centers, PLC in Norfolk. Dr. Whibley is a graduate of Eastern Virginia Medical School, Jones Institute of Reproductive Medicine, Old Dominion University, and the College of William and Mary. Dr. Whibley is active in many local professional organizations.

Donald L. Williams, Council Member

Mr. Williams, representing Ward 1, was first elected to City Council in July 2002. Prior to running for Council, Mr. Williams served as a delegate in the Virginia House of Delegates from 1998 through 2001. He is currently president of the Hampton Roads Housing Center. He attended Old Dominion University and obtained a real estate broker's license in 1983. Mr. Williams is active in many civic and business activities.

Barclay C. Winn, Council Member

Mr. Winn, representing Super Ward 6, was first elected to City Council in July 2000. He is the Chief Executive Officer of Winn Nursery of Virginia, Inc. He received a Bachelor of Science degree from North Carolina State University, Raleigh, North Carolina. Mr. Winn is active in many civic and business activities.

W. Randy Wright, Council Member

Mr. Wright, representing Ward 5, was first elected to City Council in July 1992. He is the owner of Randy Wright Printing and Publishing. He is involved in many civic and business activities.

Certain Appointed Officials

Regina V.K. Williams, City Manager

Regina V.K. Williams assumed the post of Norfolk City Manager in January 1999. Her responsibilities include the supervision of the administrative operations of the City and the preparation of its annual budget. She served as City Manager for the City of San Jose, California for five years and previously served as Assistant City Manager for five years. Prior to serving in San Jose, Mrs. Williams was Deputy City Manager and Chief of Staff for the City of Richmond, Virginia. In 1982, Mrs. Williams was appointed by then Virginia Governor Charles Robb as the first female and first African American to be State Director of Personnel and Training. In 1991, she was inducted as a fellow into the National Academy of Public Administration (NAPA). In 1988, Mrs. Williams was elected to vice-president of the Board of Directors for the International City-County Management Association (ICMA). She was awarded the designation of manager of the year in September 2002 by ICMA. Mrs. Williams also served as the President of the National Forum of Black Public Administrators in 1995-96 and is a founder and former President of the Richmond, Virginia Chapter of the Conference of Minority Public Administrators. She earned her Bachelor of Science degree from Eastern Michigan University, Ypsilanti, Michigan and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

Steven G. de Mik, Director of Finance and Business Services

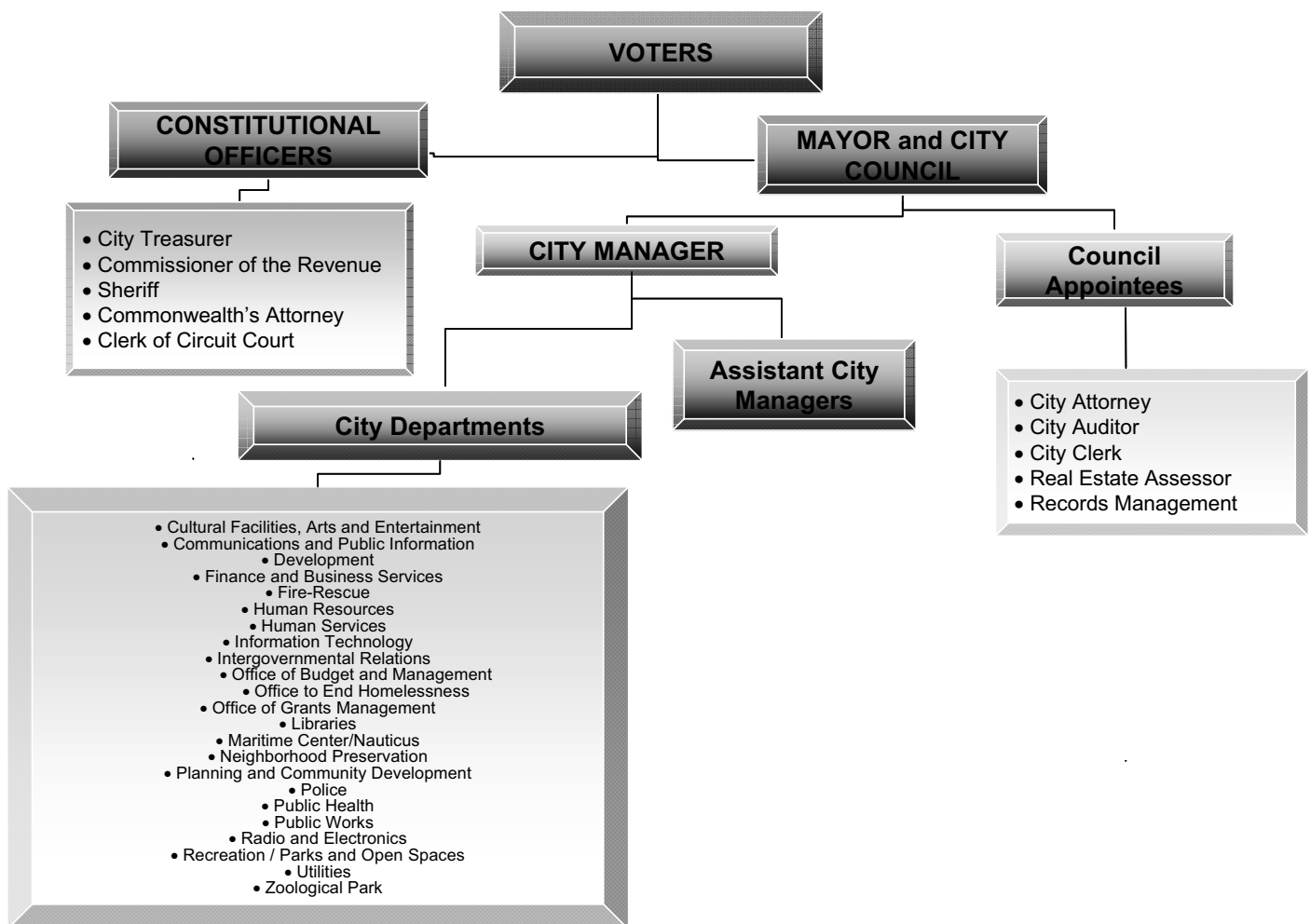
Steve G. de Mik commenced his tenure as Director of Finance on September 1, 2000 and Director of Finance and Business Services on July 1, 2005. At the direction of the City Manager, he is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development and instruction. In addition, he is responsible for the administration of the financial affairs of the City which include cash management and investments, debt management, financial accounting and reporting, procurement, risk management, retiree benefits, parking facilities and operations, facility maintenance and the City's fleet operations. Mr. de Mik came to the City from Knox County, Tennessee where he served as the Deputy Director of Finance and Administration. His other work experiences include service with the State of Tennessee Comptroller of the Treasury and Chipman and McMurray, Certified Public Accountants. Mr. de Mik earned a Bachelor of Science degree in Accounting and Business Administration from Southwest Baptist University, Bolivar, Missouri. He is also a licensed Certified Public Accountant.

Bernard A. Pishko, City Attorney

Bernard A. Pishko was first appointed by City Council as City Attorney in November 1997. He previously served as Deputy City Attorney from 1989 to 1997 and as an Assistant City Attorney from 1984 to 1989. He has practiced law since 1982. The City Attorney is also general counsel for the Norfolk School Board, Norfolk Recreational Facilities Authority, Norfolk Community Services Board, Hospital Authority of Norfolk, Norfolk Municipal Employees' Retirement System, Norfolk Electoral Board, Civil Service Commission and The Chrysler Museum of Art. Mr. Pishko is a member of many professional associations and community organizations. He received his undergraduate degree from Brown University, Providence, Rhode Island, a Masters degree in Business Administration from the College of William and Mary, Williamsburg, Virginia, and a law degree from the Marshall-Wythe School of Law.

Governmental Services and Facilities

City Organization



In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.

Other Governmental Entities

School Board of the City of Norfolk

The seven members of the School Board of the City of Norfolk (the “School Board”) are appointed by the City Council. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth of Virginia and the federal government designated for educational purposes is included in the City’s General Fund budgetary revenue. This categorical aid, plus monies derived from local sources, provides the funds for the major share of the School Board’s operations. On an ongoing basis, the City also issues debt to finance needed capital projects of the school system.

The School Board presently operates thirty-five (35) elementary schools, nine (9) middle schools, five (5) high schools and several auxiliary schools, including alternative, magnet and specialty programs. For the fiscal year ended June 30, 2007, the School Board’s expenditures for education totaled \$368,841,788.

Norfolk Airport Authority

The Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the “Airport”). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements.

The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments.

The Authority’s Commissioners are appointed by City Council, but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority, and pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

Hampton Roads Regional Jail Authority

The Hampton Roads Regional Jail Authority (HRRJA) is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The facility (the “Jail”), which opened in March 1998, consists of approximately 385,518 square feet of building area, including three housing building units, a support building and a central plant. The Jail holds 875 inmates of which 250 are designated to the City. The City is responsible for 28.57% of the total operating cost less the revenue derived from the Virginia Compensation Board and the per diem reimbursement from the Commonwealth for the housing of state inmates.

The Southeastern Public Service Authority of Virginia

The Southeastern Public Service Authority (SPSA) is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors, consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional system includes a refuse-derived fuel plant and a fuel delivery system, located on federally-owned land in the City of Portsmouth, as well as solid waste transfer stations in each of the member jurisdictions, a landfill, rolling stock and ancillary facilities, and an extensive recycling program which collects recyclable waste products from single-family homes and at drop-off centers.

Transportation District Commission

Hampton Roads Transit was created on October 1, 1999, with the consolidation of the Tidewater Regional Transit (“TRT”) and Peninsula Transportation District Commission (“PENTRAN”). It is believed to be the first voluntary merger of public transit agencies in the nation. The district continues to be a political subdivision of the Commonwealth of Virginia, formed as a joint exercise of governmental power in accordance with the provisions of Chapter 32 of Title 15.2 of the Code of Virginia. The District provides public transportation facilities and services within Cities of Norfolk, Chesapeake, Hampton, Newport News, Portsmouth, Suffolk and Virginia Beach.

The Hampton Roads (formerly Tidewater) Transportation District Commission, a political subdivision of the Commonwealth of Virginia, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia.

Table V-2
City of Norfolk, Virginia
Contributions to Hampton Roads Transportation District Commission
2004-2008

<u>Fiscal Year</u>	<u>Contributions</u>
2004	\$ 3,002,003
2005	3,021,200
2006	4,559,463
2007	5,960,949
2008	7,047,624

Sources: Approved Operating Budgets, Fiscal Years ended June 30, 2004 through 2008.

Hospital Authority of Norfolk

The Hospital Authority of Norfolk (“HAN”), which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1988. The Hospital Authority operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

Norfolk Redevelopment and Housing Authority

The Norfolk Redevelopment and Housing Authority (“NRHA”), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development, and urban renewal. The NRHA develops its operating budget without approval from the City Council and executes contracts on its own behalf. However, the City does not exercise a significant degree of oversight responsibility for the NRHA as it is responsible for designating its own management, developing its own operating budget and executing major contracts on its own behalf. The NRHA is responsible for its own fiscal matters as it maintains its own books of account, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

As reflected in the Table V-3, from 1970 to 2002, the population of the City declined; a fact which can be attributed in part to the clearance and redevelopment of blighted areas and to a reduction in the birth rate. More recently published population statistics suggest the City's population has now stabilized. The City is the second most populous city in Virginia, as shown in Table V-4.

**Table V-3
Population Trend Comparisons
1960-2007**

<u>Year</u>	<u>Norfolk⁽³⁾</u>	<u>Hampton Roads MSA⁽¹⁾⁽³⁾</u>	<u>Virginia⁽⁴⁾</u>	<u>U.S.⁽⁴⁾</u>
1960	305,872	881,600	3,954,429	179,323,175
1970	307,951	1,058,764 ⁽²⁾	4,468,479	203,211,926
1980	266,979	1,160,311 ⁽²⁾	5,346,279	226,504,825
1990	261,250	1,430,974	6,189,197	249,632,692
2000	234,403	1,533,739	7,078,515	281,421,906
2001	234,000	1,567,300	7,190,468	285,112,030
2002	233,600	1,574,500	7,281,659	287,888,021
2003	233,900	1,583,900	7,370,557	290,447,644
2004	235,200	1,605,900	7,464,033	293,191,511
2005	235,071	1,615,415	7,557,588	295,895,897
2006	238,832	1,623,139	7,640,249	298,754,819
2007	N/A	N/A	7,712,091	301,621,157

Sources: Various Reports of the Bureau of the Census and the Weldon Cooper Center for Public Service, University of Virginia.

- Notes:
- (1) Until March 1993, the Hampton Roads MSA consisted of the Virginia localities of Norfolk, Chesapeake, Hampton, Newport News, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg, Gloucester County, James City County, and York County. In March 1993, Mathews County and Isle of Wight County, Virginia, and Currituck County, North Carolina were added to the Hampton Roads MSA.
 - (2) Weldon Cooper Center for Public Service, University of Virginia, is the source for the 1970 and the 1980 MSA Population.
 - (3) For years 2001-2006, population estimates are from the U.S. Census Bureau.
 - (4) For years 2000-2006, U.S. and Virginia population estimates are from the U.S. Census Bureau.

**Table V-4
Five Most Populous Cities in Virginia**

<u>City</u>	<u>2000 Census Population</u>	<u>2006 Population Estimate</u>
Virginia Beach	425,257	433,549
Norfolk.....	234,403	238,832
Chesapeake	199,184	215,586
Richmond.....	197,790	192,032
Newport News	180,697	181,416

Source: Bureau of the Census and the Weldon Cooper Center for Public Service, University of Virginia.

Table V-5 provides an annual comparison of per capita personal income since 1996.

Table V-5
City of Norfolk, Virginia
Per Capita Personal Income Comparisons
1996-2005

<u>Year</u>	<u>City</u>	<u>Hampton Roads</u> <u>MSA</u>	<u>State</u>	<u>U.S.</u>
1996	\$ 19,401	\$ 21,876	\$ 25,034	\$ 24,175
1997	20,361	22,838	26,307	25,334
1998	21,406	24,026	27,780	26,883
1999	22,131	24,912	29,226	27,939
2000	23,547	26,364	31,085	29,843
2001	24,885	27,789	32,501	30,562
2002	25,597	28,828	33,014	30,795
2003	27,088	30,129	33,976	31,466
2004	28,684	31,587	35,698	33,090
2005	30,528	33,163	37,503	34,471

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2007.

The age distribution of the City's population is presented in Table V-6.

Table V-6
City of Norfolk, Virginia
City Population Distribution by Age
1960-2000

<u>Year</u>	<u>Population</u>	<u>Under 20</u>	<u>20-64</u>	<u>65 or Older</u>
1960	305,872	39.8%	54.5%	5.7%
1970	307,951	35.4	57.8	6.8
1980	266,979	30.7	60.1	9.2
1990	261,250	28.1	61.4	10.5
2000	234,403	27.3	61.5	11.2

Source: Various Reports of the Bureau of the Census.

Housing and Construction Availability

Table V-7 provides an annual breakdown of residential building permits over the past 10 years.

**Table V-7
City of Norfolk, Virginia
Residential Construction
Fiscal Years 1998 - 2007**

<u>Fiscal Year</u>	<u>Building Permits</u>	<u>Number of Units</u>	<u>Value (in thousands)</u>
1998	192	282	\$ 24,263
1999	174	241	21,872
2000	189	310	38,739
2001	185	401	35,109
2002	290	462	44,498
2003	287	609	61,790
2004	506	766	83,525
2005	560	1,191	204,391
2006	531	1,058	133,053
2007	389	491	688,476

Source: Permit Tracking System, Department of Planning, City of Norfolk.

Table V-8 presents annual nonresidential construction, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.

**Table V-8
City of Norfolk, Virginia
Nonresidential Construction
Fiscal Years 1998 - 2007**

<u>Fiscal Year</u>	<u>Building Permits</u>	<u>Value (in thousands)</u>
1998	54	\$ 79,500
1999	46	52,932
2000	45	138,472
2001	35	62,046
2002	53	51,451
2003	35	24,084
2004	59	134,197
2005	70	70,677
2006	60	165,989
2007	55	81,396

Source: Permit Tracking System, Department of Planning, City of Norfolk.

Employment

Businesses in the City provide residents with employment opportunities in a variety of industries of which services, government and trade are the most significant.

The unemployment rate for the City is illustrated in Table V-9.

Table V-9
City of Norfolk, Virginia
Unemployment Rates
1998 – 2007

	<u>Norfolk</u>	<u>Hampton Roads MSA</u>	<u>Virginia</u>	<u>U.S.</u>
1998	5.2%	3.4%	2.8%	4.5%
1999	5.0	3.2	2.7	4.2
2000	3.3	2.5	2.3	4.0
2001	4.3	3.3	3.2	4.7
2002	5.5	4.2	4.2	5.8
2003	5.7	4.3	4.1	6.0
2004	5.5	4.1	3.7	5.5
2005	5.4	4.0	3.5	5.1
2006	4.1	3.3	3.0	4.6
2007 ⁽¹⁾	4.1	3.2	3.0	4.5

Source: Virginia Employment Commission.

⁽¹⁾ 2007 data is as of November, 2007.

Table V-10
City of Norfolk, Virginia
Civilian Employment and Average Weekly Gross Wages
4th Quarter, 2006

<u>Category</u>	<u>Number of Establishments</u>	<u>Number of Employees</u>	<u>Average Weekly Gross Wage</u>	<u>Percentage of Employment</u>
Construction	483	6,142	\$ 863	4.28%
Manufacturing	170	8,519	918	5.94
Trade, Transportation & Utilities	1,399	29,988	768	20.91
Information	120	3,631	1,005	2.53
Financial Activities	622	8,791	941	6.13
Professional & Business Services	986	20,375	1,062	14.21
Education and Health Services	520	35,971	822	25.08
Leisure and Hospitality	588	13,549	283	9.45
Other Services	618	4,139	511	2.88
Public Administration	71	12,281	1,159	8.56
Natural Resources & Mining	6	44	1,036	0.03
Total	5,583	143,430	\$ 852	100.0%

Source: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program.

Economic Development

Economic development initiatives are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization and commercial corridor development. Some of the City-lead initiatives to stimulate commercial revitalization include: Tax Abatement Program; Federal Empowerment and HUB Zones; State Enterprise Zones; Small Area Aesthetic Matching Grant Program; Aesthetic Improvement Grant Pool; Pedestrian Commercial Overlay Zones Tax and Grant Benefits; Concentrated Development Zone Incentives; public infrastructures; amenities; Tax Increment Financing Zones; and Revolving Loan Funds.

Downtown Development

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists. Resulting from the coordinated efforts of the City, downtown property assessed value increased 69.43% from fiscal year 2000 to fiscal year 2007.

The current vacancy rate for Downtown Class A office space is below 10 percent, as shown in Table V-11 below.

Table V-11
City of Norfolk, Virginia
Downtown Norfolk Vacancy
January 2008

<u>Class A</u>	<u>Rentable SF</u>	<u>Vacant SF</u>	<u>% Vacant</u>
150 West Main Street	226,183	5,745	2.54%
Crown Center	62,000	-	0.00
Dominion Tower	403,276	33,620	8.34
Main Street Tower	200,000	17,351	8.68
Norfolk Southern Tower	301,463	-	0.00
Town Point Center	130,266	7,404	5.68
World Trade Center	<u>366,941</u>	<u>57,996</u>	<u>15.81</u>
TOTAL	1,690,129	122,116	7.23%

Source: Costar, January 2008.

Bank presence along Main Street includes Bank of America, BB&T, Monarch, Old Point National, RBC Centura, SunTrust, TowneBank and Wachovia. Bank of Hampton Roads, Heritage, Bank of the Commonwealth and several credit unions are also downtown.

Residential Development

Neighborhood revitalization is one of the City's core initiatives and part of the economic development plan. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City. Several mixed-use offerings Downtown include: Harbor Heights, a \$57 million investment, 99 condos (some lofts), with a first floor retail grocery with integral parking and two floors of administrative space for Tidewater Community College. The Belmont at Freemason, a Kotarides development, contains 241 apartments in two buildings and a garage with 531 parking spaces at Brambleton and Bute Streets with an estimated value of \$45 million. St. Paul's Place is complete with 90 condos alongside the MacArthur Center bringing a mix of historic façade, traditional condos (The Flats); and industrial lofts along St. Paul's Boulevard (The Lofts). The same developers renovated the Rotunda, a signature round building adjacent to St. Paul's Place into 66 condominiums ranging in price from \$250,000 to \$1.2 million. In addition to this there are 94 condominium units at 388 Boush Street, an upscale community representing a \$26 million project with a hidden City parking garage in the center. Marathon Development Group's Granby Tower project, at the intersection of Granby Street and Brambleton Avenue across from the Federal Courthouse will create 301 condominiums with upper prices at more than \$2.6 million. This \$185 million project will also include retail and office space and amenities including a pool, exercise facility, club area and parking.

Residential development also continues to grow in areas beyond Downtown Norfolk. In Larchmont, located on the west side of Norfolk, The Landings at Bolling Square, a 184 condominium unit development estimated at \$60 million, is under construction. The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. More than 200 new homes have been built in Ocean View with an average value of \$250,000. The East Beach section of Ocean view will have 700 housing units with prices ranging from \$200,000 to over \$1 million. A portion of the homes are currently occupied with the remainder of the development on track for completion by 2010. Broad Creek is a \$200 million new community near Norfolk State University with 600 mixed-income homes. Broad Creek, which made its debut at Homearama 2005, was the region's first mixed-use, mixed-income community. The development was recognized nationally in 2006 by the National Association of Homebuilders with an Award of Excellence, in partnership with the Tidewater Builders Association. The last development phase located to the north of Princess Anne Road will include homeownership opportunities ranging from higher-end to lower moderately priced units. The City is also redeveloping the Fort Norfolk area, which is a 30-acre urban waterfront area linking Downtown Norfolk to the region's medical complex and Ghent community. In the Fort Norfolk section of Downtown Norfolk, the City's first retirement community, known as Harbour's Edge, opened in September 2006.

Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Recently, investments in this segment include restoring three live performance theatres, the construction of a cruise terminal building and upgrades to civic venues. Norfolk is home to the Chrysler Museum of Art, Virginia Arts Festival, Virginia Ballet, Virginia Opera, Virginia Stage Company and Virginia Symphony. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

International Intermodal City Expansions

Cruise Norfolk

The 80,000 square foot Half Moone Cruise & Celebration Center opened in spring 2007. The cruise terminal, Norfolk's newest and most unique waterfront attraction, is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. Norfolk is a homeport for Royal Caribbean International and Carnival ships, which provide regular service to Bermuda, the Bahamas and the Caribbean. During the 2006 – 2007 cruise season, 73,000 cruise ship passengers traveled from Norfolk. Norfolk was selected as "Port of the Month" in April 2006 issue of Cruise Travel for its rich maritime heritage, its convenient downtown cruise facility and its investment in its new terminal. The terminal received its name Half Moone from a fort that was built on the same site in 1673 in the form of a "half moone".

Norfolk Airport Authority

Norfolk is served by American, Continental, Delta, Northwest, Southwest, United Express and US Airways. In 2007, 3.7 million passengers used Norfolk International Airport, a 0.29% increase over 2006. In addition, over 70 million pounds of cargo flowed through the airport. In Norfolk, service has remained stable over the past two years, with an average of 95 daily departures a month.

Hotel Development

The City continues to be a national leader in hotel performance with growth in hotel occupancy rates. In 2005, average daily rates rose from \$74 to \$76 per room, citywide and total hotel revenues increased from \$89.5 million to \$93.2 million. Currently there are four hotels under construction or proposed in Downtown Norfolk. A \$47 million, 16-story luxury hotel is planned to be built adjacent to a new city conference center at the corner of Granby and Main Streets. Fort Norfolk Plaza, across Brambleton from the medical complex, will include a 125-room Hyatt Summerfield Suites extended-stay hotel. A nine-story, 160-room Residence Inn by Marriott broke ground in November 2007 on Brambleton between Duke and Boush Streets. In November 2007, a developer announced plans to build a 15-story Hampton Inn & Suites in the 100 block of West Brambleton Avenue.

Waterfront Recreation Investment

Over \$17 million of overall investment has been made recently along Norfolk's waterfronts. In Ocean View, adjacent to the East Beach slated retail area called "Little Annapolis" is the Taylor's Landing Marina Center, a \$10 million private investment bringing 500 new recreational boat slips to the area. This marina complex is being expanded to include retail boat showrooms, a boat repair facility, condominiums and restaurant and retail offerings.

Sports and Recreation

Norfolk has several waterfronts with the Chesapeake Bay on its North boundary and two major rivers within its boundaries. The City has a public boat ramp in Willoughby Spit with access to the

Chesapeake Bay, several other boat ramps and a rowing facility located in Lakewood Park. There are also three golf courses located within the City.

Norfolk is home to the Norfolk Tides, (a AAA baseball team), the Norfolk Admirals (a professional hockey club), and hosts Arena Racing USA on an indoor track.

Norfolk's Educational Institutions

Available within the City are a wide variety of educational facilities including public elementary, middle and high schools, private and parochial schools, two universities, one college, one community college and a medical school.

Public Schools

Norfolk public schools have a low pupil-teacher ratio with class sizes well below the national average. Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and at Ocean Air Elementary.

Approximately \$90 million has been recently invested in Norfolk public schools. Facilities receiving renovations and new construction include Norview High School, Blair Middle School, Bay View Elementary, Granby High School, Taylor Elementary and the School of International Studies at Meadowbrook.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School.

The Broad Foundation awarded Norfolk public schools the "Nobel Prize" of education in 2006 designating it as the Best Urban School District in the nation. This is the third year in a row that Norfolk has been selected as one of five finalists for this prestigious award. The Broad Prize is presented annually to an urban school district that has demonstrated considerable success in narrowing achievement gaps between groups of students while improving performance for all.

Student population for the past five fiscal years is shown in Table V-12.

Table V-12
City of Norfolk, Virginia
Public Schools Student Population
Fiscal Years 2003 – 2007

<u>Fiscal Year</u>	<u>September 30 Membership</u>	<u>Percent Change</u>
2003	34,349	-1.02%
2004	34,030	-0.93
2005	34,445	1.28
2006	34,063	-1.12
2007	33,593	-1.38

Source: Virginia Department of Education. Superintendents Annual Report. Table 1, Membership.

Higher Education

Norfolk is home to five institutions of higher learning: Old Dominion University, Norfolk State University, Virginia Wesleyan College, Tidewater Community College and Eastern Virginia Medical School. Old Dominion University (“ODU”) is one of only 100 public research universities nationwide, with a full and part-time enrollment of nearly 21,000 students. ODU’s Innovation Research Park, one of the only research parks in the nation to be located on the campus of its research institution, is located in the 75-acre, mixed use University Village. Norfolk State University is Virginia’s largest public, historically black university (“HBCU”) and the seventh largest HBCU in the nation.

Institutional Technology Parks

Old Dominion University – University Village. Old Dominion University, in partnership with the City, the Norfolk Redevelopment and Housing Authority, and private developers, has initiated a large scale, mixed-use redevelopment project. This redevelopment project, the University Village, will directly impact 75 acres (13 City blocks) and result in over \$260 million in private and public investments. The project includes student housing, retail, a convocation center, parking, research/office buildings, apartments and a hotel. The research park, named Innovation Research Park, is one of a few research parks in the country located on the campus of its research institution.

Norfolk State University – The RISE Center. The Research and Innovations to Support Empowerment (RISE) Center is located on the campus of Norfolk State University. Designed to promote interaction between the university, the business sector and community and federal agencies in research and technology, the RISE Center houses classrooms, labs and offices for professors in areas such as materials research, engineering and computational science, as well as the office of research and technology.

Norfolk’s Medical Institutions

Within the City, there are four general, acute care and specialized hospitals including Sentara Norfolk General Hospital, Sentara Leigh Hospital, Bon Secours DePaul Medical Center and Children’s Hospital of The King’s Daughters (“CHKD”). Sentara Norfolk General Hospital opened its new \$100 million heart hospital in February 2006, a 112-bed, 254,000 square foot center. The heart hospital is leading the way for Sentara’s 2010 expansion plan for the medical complex.

The Virginia Port Authority

In 1981, the Virginia General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, the Virginia International Terminals, Inc. The Port of Virginia, one of the world’s largest natural deep-water harbors, is an integral part of Norfolk’s economy.

The Virginia Port Authority is one of the top three ports on the east coast in terms of total value of port trade. Over 17.7 million tons of cargo shipped from the region’s three main marine cargo terminals in 2007. The cargo volume shipped in 2007 increased by 6.9% over that of 2006. As a result of the events of September 11th, concern for security risk has increased. The Port of Virginia is one of the few U.S. Customs ports utilizing a computerized, truck-mounted gamma-ray machine to check containers’ density. This technology allows monitors to ensure that the cargo being tested is what it is supposed to be and takes only 6 seconds per container.

Table V-13
Virginia Port Authority Terminals
General Cargo Tonnage
Calendar Years 2003 – 2007

<u>Calendar Year</u>	<u>Total General Cargo Tonnage (000's)</u>	<u>Percent Change over Previous Year</u>
2003	13,984	9.0%
2004	14,858	6.3
2005	15,964	7.4
2006	16,583	3.9
2007	17,726	6.9

Source: Virginia Port Authority.

Port-related business increases at the Virginia International Terminals drive new capital investment into the region. By 2012, a 300-acre expansion of Norfolk International Terminal will be completed making it the largest inter-modal center in the United States.

Business, Industry and Commerce

Several major companies are headquartered in Norfolk, including:

- Norfolk Southern, a Fortune 500 company and one of the country's largest railroad operators;
- Landmark Communications, one of the country's largest privately owned media companies with ownership of several daily newspapers, local TV stations, specialty publications, and The Weather Channel and weather.com;
- Dominion Enterprises, a wholly-owned subsidiary of Landmark Communications, Inc., is a print and internet media group that includes numerous specialty publications and online classifieds;
- FHC Health Systems, one of the top 250 largest private companies in the country, specializing in health care management, health services, and online medical reports;
- CMA CGM (America), Inc., one of the world's largest container transportation and shipping company;
- Portfolio Recovery Associates, a firm whose primary business is the purchase, collection and management of defaulted customer receivables; and
- BlackHawk Products Group, which provides tactical gear such as holsters, body armor, and backpacks to the U.S. Defense Department and law enforcement agencies throughout the world.

Additionally, there are a large variety of industrial, commercial and service employers are located within the City. Table V-14 presents data regarding the major non-government employers in the City.

Table V-14
City of Norfolk, Virginia
Major Non-Government Employers in 2nd Quarter 2007

Company	Number of Employees	Product/Service
	1,000+	
Sentara Healthcare		Health Care Network
Children's Hospital of the King's Daughter		Health Care Facilities
Medical College of Hampton Roads		Private College
Ford Motor Company, Inc. ⁽¹⁾		Tuck Manufacturing and Assembly
Norshipco		Shipbuilders and Repairers
Bon Secours DePaul Medical Center		Health Care Facility
Bank of America Card Services Corp.		Banking and Credit Card Service Center
	500 – 999	
United Services Automobile Association		Insurance Support Center
Wal-Mart		Retail
Bank of America		Banking
Maersk Line Limited		Shipping Company
Portfolio Recovery Association		Financial Recovery Services
Virginia International Terminal		Ports
Landmark Communications, Inc.		Newspaper and Media
Sentara Health Management		Healthcare Network
The Titan Corporation		Communication System
Farm Fresh		Retail
ODU Research Foundation		Research
American Funds Service Co		Financial Services
Electronic Data Systems Corp		Systems Analysis and Design
Dominion Enterprises		Electronic Media
7-Eleven		Retail
Tidewater Wholesale Grocery		Retail
CooperVision Inc.		Contact Lens Manufacturing
Virginia Wesleyan College		Education
CP&O LLC		Port Services
	250-499	
McDonald's		Retail
CMA-CGM (America), Inc.		Shipping Company
Food Lion		Retail
Personal-Touch Home Care, Inc.		Comprehensive Home Care Services
Colonna's Shipyard		Ship Builders and Repairers
General Foam Plastics Corporation		Plastic Extractions
Lake Taylor Transitional, Inc.		Health Services
Office Team		Office Staffing Services
Amer-Force Craft Services, Inc.		Craft Labor to the Marine and Industrial Sectors
Metro Machine Corporation		Ship Builders and Repairers
Transit Management Company		Transportation

Source: Virginia Employment Commission.

Notes: (1) The Ford Motor Company, Inc. closed its Norfolk assembly plant in June, 2007.

Table V-15 is a representation of selected business growth or expansion for the period 2005 - 2007.

Table V-15
City of Norfolk, Virginia
Business Growth
A Sampling of Business Activity in 2005-2007

Company	Type	Investment (Mil)
Air Wisconsin Airlines Corporation	Aircraft Maintenance and Flight Crew Hub	\$31.00
Berkley Shopping Center	Shopping Center	\$4.70
Bio-Electrics Phase II	Biotechnology Consulting Firm	\$1.25
Blackhawk Industries	HQ, Tactical Gear for Military and Law Enforcement	\$12.00
Central Center Office Building	Office/Flex	\$4.00
Church Street Executive Center	Office/Flex	\$7.00
CMA-CGM America Inc.	North American HQ, Shipping Line	\$15.00
Colonna's Shipyard	Ship Repair/Industrial Fabrication	\$4.20
Commander Corporate Center	Military Apparel Manufacturer	\$24.00
Computerized Imaging Reference Systems	Manufacture Surgical and Medical Instruments	\$0.50
CorrPro Companies	Corrosion Protection Services	\$0.30
Cruise Ship Terminal	Cruise Ship Terminal	\$41.00
Delphinus Engineering	Office/Flex	\$2.25
Dister Wholesale Printing, Inc.	Manufacturer Business Cards	\$0.90
Ghent Towers South	Mixed-Use Residential/ Office/ Hotel	\$80.00
Hampton Inn	Hotel	\$9.00
Hilton Hotel and Conference Center	Hotel and Conference Center	\$76.00
Innovation Research Park @ ODU Bldg I	High-Tech Research Park	\$22.50
Innovation Research Park @ ODU Bldg II	High-Tech Research Park	\$22.50
Maersk Line Ltd.	Shipping Contractor Headquarters	\$ -
Marine Hydraulics International Inc.	Ship Repair Facility Expansion	\$25.00
Mark Barr – Denison Building One	Office/Flex	\$1.80
Mark Barr II – Denison Building Two	Office/Flex	\$1.80
Norfolk Airport Hilton	Hotel Renovations	\$18.00
Old Dominion University	Bookstore	\$7.00
P&P LLC	Office/Flex	\$5.40
Phoenix Industries	Underwater Ship & Marine Structure Repair	\$0.13
RBC Centura Banks	Commercial Banking	\$ -
Ride-Away Corporation	Retail	\$1.00
SAIC Norfolk	IT/Communications	\$1.70
Savannah Suites	Hotel	\$6.00
Sentara Heart Hospital	Hospital	\$100.00
Social Security Administration	Office Building	\$8.50
Spring Hill Suites by Marriot at ODU	Hotel	\$10.00
Taylor Executive Center	Office/Flex	\$5.50
Taylor's Boatel and Marina	Marina Facility	\$7.58
Techcon General Contractor	Construction Management	\$1.00
The Titan Corporation	IT/Communications	\$ -
Tidewater Comm. Coll. Student Center	Student Center	\$14.00
TowneBank of Portsmouth	Commercial Banking	\$ -
Trader Publishing Company	Office Tower	\$51.00
US Gypsum	Plant Expansion	\$132.00
Va Eye Consultants & Surgery Center	Eye Clinic and Surgery Center	\$15.00
Wal-Mart Super Center	Retail New Super Center	\$31.00
Wasabi Systems	Custom Software	\$0.80

Source: City of Norfolk, Economic Development Department.

Maritime Business Investment

In 2007, Maersk Sealand opened a \$450 million cargo terminal on 560 undeveloped acres on the Portsmouth waterfront – across the Elizabeth River from the downtown and Berkley sections of Norfolk. The facility features 4,000 feet (1,219 meters) of deepwater berth space (four times the current amount), and serve as a Mid-Atlantic platform for future growth. The amount of cargo shipped through Hampton Roads is expected to at least double by 2020, in part due to the area's attraction as a major distribution center. A.P. Moller is the parent company of Maersk Sealand, the world's largest shipping line.

Military

The presence and role of the military in Norfolk remains a positive force and continues to have a significant impact on the local economy. The City is the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The Navy's direct economic impact on the region was \$12.6 billion in 2007, comprised of a total annual payroll of \$7.3 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 79,000. There were 83,906 active-duty Navy military personnel in Hampton Roads in 2006, of which 80% were assigned to Norfolk.

Although the military remains a key part of Hampton Roads' economy, the region has successfully diversified its economy in recent years.

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APPENDIX A

CITY OF NORFOLK, VIRGINIA
GENERAL PURPOSE FINANCIAL
STATEMENTS FOR THE FISCAL YEAR
ENDED JUNE 30, 2007

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Members of the City Council
Norfolk, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the "City"), as of and for the fiscal year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Norfolk Redevelopment and Housing Authority ("NRHA"), a component unit, which represents approximately 64% and 22%, respectively, of the assets and revenues of the aggregate discretely presented component units of the City of Norfolk, Virginia. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for NRHA, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note XXV to the financial statements, the City restated beginning Net Assets to correct errors associated with improper capitalization of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of the City of Norfolk, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis information on pages 3 through 16, the schedule of funding progress on page 83, and the general fund budgetary comparisons on pages 84 through 86 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norfolk, Virginia's basic financial statements. The combining and individual fund financial statements and other schedules listed in the table of contents as supplementary information and the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund financial statements and other schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Greensboro, North Carolina
December 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The management of the City of Norfolk (the "City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report.

Financial Highlights

- ✚ The assets of the City exceeded its liabilities at the close of fiscal year 2007 by \$772,600,446 (net assets). Of this amount, \$161,852,088 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Although total net assets decreased by \$14,160,823, unrestricted net assets increased \$21,764,323.
- ✚ As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$196,931,333, an increase of \$57,164,164 in comparison with the prior year. This increase was primarily attributable to the Capital Project's fund recording of over \$120 million in the sale of capital improvement bonds during the fiscal year. Approximately \$110,691,000 is available for spending at the government's discretion (unreserved fund balance).
- ✚ At the end of the current fiscal year, the total unreserved fund balance for the general fund was \$71,056,502 or 9.17 percent of the general fund budget.
- ✚ The City's total outstanding bonded indebtedness increased by \$91,611,730 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financials statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, public health, and culture and recreation. The business-type activities of the City include Water Utility, Wastewater Utility and Parking Facilities enterprise activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: Norfolk Public Schools ("School Board"), Norfolk Redevelopment and Housing Authority ("NRHA"), and the Norfolk Community Services Board ("CSB"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 28-29 of this report.

Fund financial statements - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the Basic Financial Statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and debt service funds, all of which are considered major funds. All other governmental funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major funds are presented separately in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report.

The basic governmental fund financial statements can be found in pages 19-22 of this report.

Proprietary funds. The City maintains two types of proprietary funds: enterprise and internal service.

The enterprise funds are used to account for its Water Utility, Wastewater Utility, and Parking Facilities operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Internal service funds are an accounting mechanism to accumulate and allocate costs internally among the City's functions. The City has two internal service funds, Fleet Maintenance and Storehouse operations. Because, both of these services predominantly benefit governmental functions, they are included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Utilities and the Parking Facilities operations, all of which are considered major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The fiduciary funds for the City include the City's pension trust fund, the Commonwealth of Virginia agency fund and another miscellaneous agency fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The fiduciary fund financial statements can be found in pages 26-27 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30-81.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in on pages 83-86 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 87-95 of this report.

Government-wide Financial Analysis

Over time, net assets may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$772,600,446.

By far, the largest portion of the City's net assets, \$601,490,963 is its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any debt related to acquiring the asset in the most recent fiscal year that is still outstanding. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (1.2 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$161,852,088 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006 (As Restated)	2007	2006 (As Restated)
Current and Other Assets	\$ 271,839,863	\$ 213,516,003	\$ 84,433,802	\$ 87,470,627	\$ 356,273,665	\$ 300,986,630
Capital Assets	797,437,136	801,152,691	708,201,560	679,276,763	1,505,638,696	1,480,429,454
Total Assets	<u>1,069,276,999</u>	<u>1,014,668,694</u>	<u>792,635,362</u>	<u>766,747,390</u>	<u>1,861,912,361</u>	<u>1,781,416,084</u>
Long-Term Liabilities	557,590,347	470,125,834	467,437,702	461,134,881	\$ 1,025,028,049	\$ 931,260,715
Other Liabilities	44,488,570	49,841,270	19,795,296	13,552,830	64,283,866	63,394,100
Total Liabilities	<u>602,078,917</u>	<u>519,967,104</u>	<u>487,232,998</u>	<u>474,687,711</u>	<u>1,089,311,915</u>	<u>994,654,815</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	332,987,759	391,391,975	268,503,204	248,676,572	601,490,963	\$ 640,068,547
Restricted	6,731,395	6,604,957	2,526,000	-	9,257,395	6,604,957
Unrestricted	127,478,928	96,704,658	34,373,160	43,383,107	161,852,088	140,087,765
Total Net Assets	<u>\$ 467,198,082</u>	<u>\$ 494,701,590</u>	<u>\$ 305,402,364</u>	<u>\$ 292,059,679</u>	<u>\$ 772,600,446</u>	<u>\$ 786,761,269</u>

For governmental activities, total net assets decreased by \$27,503,508 during the current fiscal year.

For business-type activities, net assets (as restated in fiscal year 2006) increased by \$13,342,685 during the fiscal year. Of this amount, \$5,951,767, \$4,219,948 and \$3,170,970 are attributed to Water Utility, Wastewater Utility and Parking Facilities, respectively.

Key elements of these changes are demonstrated on the following page:

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006 (As Restated)	2007	2006 (As Restated)
Revenues:						
Program Revenues						
Charges for Services	\$ 37,250,718	\$ 31,986,446	\$ 113,729,454	\$ 117,503,915	\$ 150,980,172	\$ 149,490,361
Operating Grants & Contributions	115,779,248	116,827,425	-	-	115,779,248	116,827,425
Capital Grants & Contributions	-	-	730,636	78,245	730,636	78,245
General Revenues:						
Property Taxes	241,314,836	217,787,326	-	-	241,314,836	217,787,326
Other Taxes	159,119,198	157,616,191	-	-	159,119,198	157,616,191
Grants and Contributions not restricted for specific purposes	66,524,258	68,133,495	-	-	66,524,258	68,133,495
Other	11,447,155	23,157,327	6,620,027	7,072,024	18,067,182	30,229,351
Special Items	-	3,248,712	-	-	-	3,248,712
Total Revenues	<u>631,435,413</u>	<u>618,756,922</u>	<u>121,080,117</u>	<u>124,654,184</u>	<u>752,515,530</u>	<u>743,411,106</u>
Expenses:						
General Government	113,279,140	94,763,311	-	-	113,279,140	94,763,311
Judicial Administration	46,943,748	42,493,827	-	-	46,943,748	42,493,827
Public Safety	111,803,398	106,704,494	-	-	111,803,398	106,704,494
Public Works	119,176,252	109,906,689	-	-	119,176,252	109,906,689
Health and Public Assistance	93,774,433	91,443,328	-	-	93,774,433	91,443,328
Culture and Recreation	52,965,158	44,933,046	-	-	52,965,158	44,933,046
Community Development	14,771,583	14,930,484	-	-	14,771,583	14,930,484
Education	97,594,910	92,594,910	-	-	97,594,910	92,594,910
Interest on Long-Term Debt	19,618,419	19,564,845	-	-	19,618,419	19,564,845
Intergovernmental	-	-	-	-	-	-
Water Utility	-	-	60,510,576	62,317,763	60,510,576	62,317,763
Wastewater Utility	-	-	17,377,348	16,984,841	17,377,348	16,984,841
Parking	-	-	18,861,388	18,355,868	18,861,388	18,355,868
Total Expenses	<u>669,927,041</u>	<u>617,334,934</u>	<u>96,749,312</u>	<u>97,658,472</u>	<u>766,676,353</u>	<u>714,993,406</u>
Increase (decrease) in Net Assets before Transfers	(38,491,628)	1,421,988	24,330,805	26,995,712	(14,160,823)	28,417,700
Transfers	<u>10,988,120</u>	<u>11,867,535</u>	<u>(10,988,120)</u>	<u>(11,867,535)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets	(27,503,508)	13,289,523	13,342,685	15,128,177	(14,160,823)	28,417,700
Net Assets Beginning of Year	494,701,590	481,412,067	43,383,107	276,931,503	538,084,697	758,343,570
Net Assets End of Year	<u>\$ 467,198,082</u>	<u>\$ 494,701,590</u>	<u>\$ 56,725,792</u>	<u>\$ 292,059,680</u>	<u>\$ 523,923,874</u>	<u>\$ 786,761,270</u>

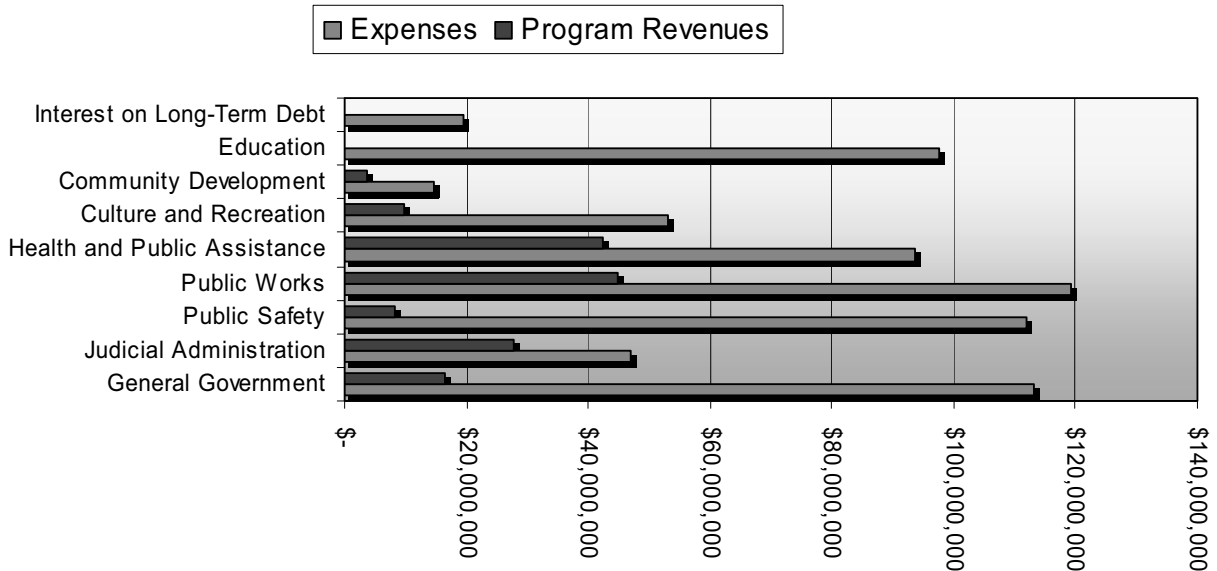
Governmental Activities. Property taxes and other tax revenues increased 6.67 percent to \$400,434,034 and comprise 63.42 percent of total governmental revenues.

Operating grants and contributions for governmental activities ended the fiscal year at \$115,779,248 a decrease of \$1,048,177 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and federal agencies. For the 2007 fiscal year, the City reported \$66,524,258 in grants and contributions not restricted for specific programs.

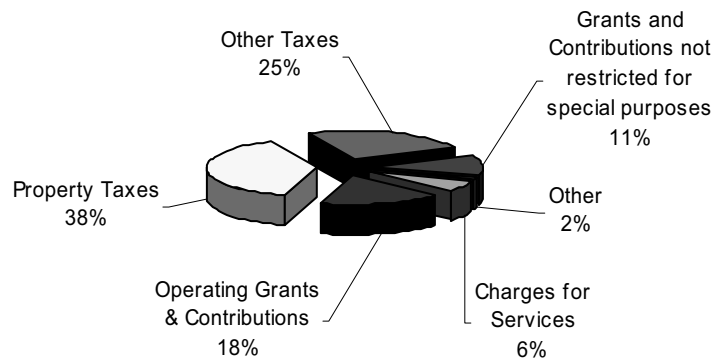
Depreciation expense for governmental activities of \$83,256,918 was recorded.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

Governmental Activities Expenses and Program Revenues



Governmental Activities: Revenues by Source



Business-type Activities. Business-type activities increased the City's net assets by \$13,342,685. Key elements of this change are as follows:

Charges for services for business-type activities decreased by 3.21 percent. The Water Utility fund accounts for a significant portion of this decrease.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

Water utility charges for services reduced \$4,402,404 of which \$2,000,000 is attributable to calculations associated with a wholesale customer contract with an adjacent municipality. The contract contains certain "true-up" provisions where actual payments the City received for services rendered are compared to contractual calculations of revenues and expenses. Estimates in anticipation of a bi-annual "true-up" are performed annually and resulted in a reduction of revenues to the Water Utility Fund.

In 2006 the Water Utility fund reported a current liability of \$853,000 to reflect the estimated over-recovery of revenue from another wholesale customer. In 2007 current year revenues were further reduced by an additional of \$1,067,000. At June 30, 2007, the liability was \$1,920,000.

In 2007 another wholesale customer repaired a significant water leak that existed for many years resulting in a reduction of revenues of \$1,600,000.

As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater Utility rates were increased by \$0.10/100 cubic feet and \$0.11/100 cubic feet, respectively. Water consumption did not increase appreciably during the fiscal year.

Parking revenues increased \$688,286 primarily as a result of increased monthly parking revenues and additional collections of parking fees and fines.

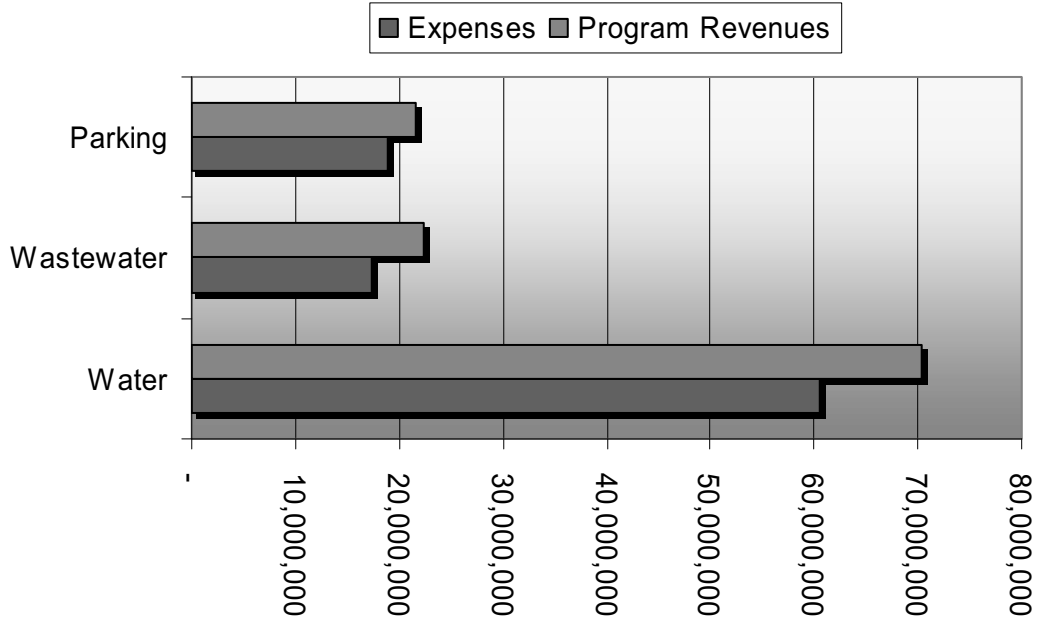
Operating expenses for Business-type activities decreased \$909,160 or 0.93 percent.

The Water Utility fund reduced operating expenses \$1,807,187 primarily a result of reductions in abnormally high repair and maintenance expenses in previous fiscal years. These expenses have partially been offset by major capital improvements made throughout the water system.

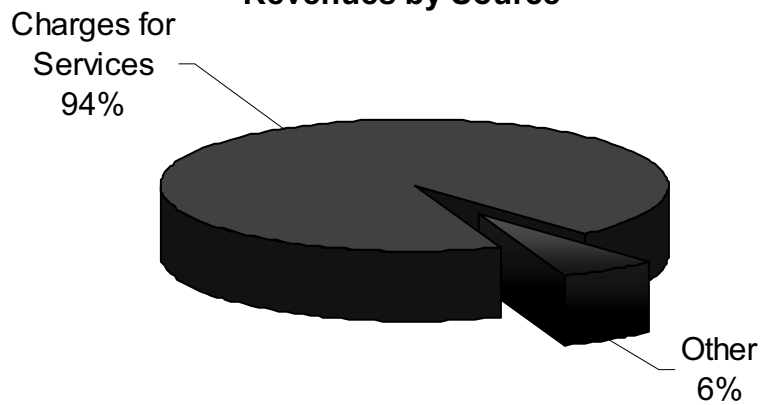
The most significant increase in expenses in the Wastewater Utility Fund was primarily related to emergency repairs to several large wastewater pipes throughout the City.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

**Business Type Activities -
Expenses and Program Revenues**



**Business-Type Activities:
Revenues by Source**



Financial Analysis of the Government's Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

Governmental Funds – the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$196,931,333 of which \$86,240,038 is reserved. The reserved fund balance is that portion of the fund balances that is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$79,336,003), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$6,111,395), and 3) for a variety of other restricted purposes (\$792,640). The remaining \$110,691,295 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City undesignated, unreserved fund balance is equal to five percent of the general government's and School Board's annual operating budgets, or \$38,751,491. The City designated \$32,305,011 of its fund balance for future expenditures related to a potential general economic downturn and for its self-insured workers' compensation and general liability programs.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues above projections by \$11,937,509. Total expenditures were less than appropriations by \$509,253.

General fund financial and budgetary highlights of the 2007 fiscal year include:

- ✦ As a result of a strong housing and commercial property markets, general property tax revenues and state reimbursements of real property taxes exceeded budgetary projections by \$3,439,809;
- ✦ Current and delinquent personal property tax collections exceeded expectations by \$2,975,810. This increase was primarily attributable to changes in the state's car tax relief program whereby taxpayers were required to pay 40 percent of total assessed taxes versus 30 percent in the previous fiscal year;
- ✦ Other local tax collections exceeded budgetary projections by \$1,693,883. A significant portion of this excess was created from a continued robust local and regional economy boosting the growth in sales tax revenues. Cigarette tax collection exceeded budgetary expectations by \$945,889. Communications taxes were less than anticipated by \$1,050,527 primarily as a result of under collections from telecommunications companies at the state level;
- ✦ The City received \$2,916,425 in disaster relief aid primarily from federal reimbursements of expenditures incurred associated with Hurricane Isabel;
- ✦ Federal categorical aid in support of the school system was \$1,402,286 less than budgetary projections.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

Supplemental appropriations or amendments of the total 2007 general fund budget were:

Approved FY 2007 Budget	\$ 766,689,400
Supplemental Appropriations	
Additional funds from fund balance for various programs	7,004,292
Additional Funds for various capital improvements	1,000,000
Increase state allocation for street maintenance	<u>336,132</u>
Final Budget	<u><u>\$ 775,029,824</u></u>

The Capital Projects Fund, another major governmental fund, expended \$89,548,741 on major capital improvements during the fiscal year. The fund had a total fund balance of \$64,317,907. In the 2007 fiscal year, the City sold \$121,705,272 in general obligation bonds to fund these expenditures.

The Debt Service Fund does not have any assets, liabilities or net assets at fiscal year end. During the year \$54,050,498 were transferred in from various funds to pay for an equal amount of debt service requirements.

Proprietary Funds - the City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets - the City's investment in capital assets, net of related debts, for its governmental and business-type activities as of June 30, amounts to \$601,490,963. The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, etc) machinery, and equipment. Infrastructure assets represent 36.75 percent of total general governmental assets.

Some of the major capital asset events during the current fiscal year include:

- Opening of the \$36 million Half Moone Cruise and Celebration Center adjacent to the National Maritime Center occurred during the fiscal year. During the year, the City expended \$16.5 million on construction expenses.
- The City invested \$3 million in various improvements at the Scope Arena.
- \$5.1 million was spent on the construction of the new Pretlow Anchor Branch Library.
- \$1 million in Atlantic City / Fort Norfolk infrastructure improvements.
- The City invested \$1.5 million in various improvements to existing recreation centers.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

- \$5.6 million of various neighborhood conservation efforts continued in the City.
- The city spent \$3.8 million for continuing renovations of Blair Middle School.
- \$3.1 million of infrastructure improvements were continued at the City's Broad Creek Renaissance neighborhood revitalization area.
- The City invested \$4 million in maintenance and repairs to various bridges throughout the City.
- Demolition and infrastructure improvements related to the conference center continued. During the year, the City spent \$2.5 million on such improvements.

City of Norfolk's Net Assets
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006 (As Restated)	2007	2006 (As Restated)
Land	\$ 37,896,651	\$ 31,502,008	\$ 43,099,824	\$ 43,075,947	\$ 80,996,475	\$ 74,577,955
Buildings & Equipment	351,956,487	324,899,336	614,323,527	596,275,555	\$ 966,280,014	\$ 921,174,891
Improvements other than Buildings	14,779,778	14,015,226	7,101,351	7,101,351	\$ 21,881,129	\$ 21,116,577
Construction in Progress	99,768,040	97,978,812	43,676,858	32,823,910	\$ 143,444,898	\$ 130,802,722
Infrastructure	293,036,180	332,757,309	-	-	\$ 293,036,180	\$ 332,757,309
Total	\$ 797,437,136	\$ 801,152,691	\$ 708,201,560	\$ 679,276,763	\$ 1,505,638,696	\$ 1,480,429,454

Additional information on the City's capital assets can be found in Note VII on pages 50-52 of this report.

Long-term Debt – At June 30, 2007 the City (including the enterprise funds) had total bonded debt outstanding of \$941,643,191. Of this amount, \$576,809,191 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

A summary of the City's outstanding bonded debt is as follows:

City of Norfolk's Long-Term Debt

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 469,498,450	\$ 382,773,339	\$ 107,310,741	\$ 93,099,122	\$ 576,809,191	\$ 475,872,461
Revenue Bonds	-	-	364,834,000	374,159,000	364,834,000	374,159,000
Total	\$ 469,498,450	\$ 382,773,339	\$ 472,144,741	\$ 467,258,122	\$ 941,643,191	\$ 850,031,461

The City's total debt outstanding increased by \$91,611,730 (10.78 percent) during the current fiscal year. The City issues debt, in part, based on its cash flow capital needs which is the primary factor for this increase.

The development of the City's 5-year Capital Improvement Program and its related debt are guided by various debt affordability practices. These practices limit total tax supported (not supported by specific fees or charges) debt as follows:

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

- Bonded debt service requirements will not exceed ten percent of general governmental expenditures; and
- Bonded debt outstanding will not exceed 3.5 percent of the assessed value of taxable real property in the City.

Business-Type activities debt practices are governed by revenue bond indentures in addition to various rate affordability measures.

Credit ratings for the City's general obligation and water revenue bond programs are as follows:

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
General Obligation	AA	AA	A1
Water Revenue	AA	AA	A1

The City's parking system does not maintain an underlying credit rating.

State statutes limit the amount of general obligation debt the city may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$1,549,620,780 which is significantly in excess of the City's general obligation debt outstanding.

Additional information on the City's long-term debt can be found in Note VIII on pages 52-62 of this report.

Economic Factors and Next Year's Budgets and Rates

- Taxable assessments for commercial and housing property markets are projected to continue to expand in the 2008 fiscal year by 15.3 percent;
- In a response to these increases the City Council voted to lower the real estate tax rate by \$0.16 to \$1.11 per \$100 of assessed value.
- Other local taxes continue to increase reflecting the renaissance in not only downtown Norfolk, but the community as a whole. The following reflects major other tax change projections:
 - Sales Tax – 5.74 percent increase;
 - Business License – 5.88 percent increase;
 - Restaurant food taxes – 3.10 percent increase;
 - Hotel and Motel Tax – 2.76 percent increase; and
- Rate increases for both the Water and Wastewater utility funds continue to provide necessary funding to finance capital improvements;

All of these factors were considered in preparing the City's budget for the 2008 fiscal year.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The City appropriated \$8,711,400 of its General Fund balance for use in the 2008 fiscal year budget for non-recurring types of expenditures.

The following represents changes in major tax rates and fees for the 2007 fiscal year:

Description	FY 2008 Approved	FY 2007 Approved
Real Estate Property Tax	\$1.11/\$100 of assessed Value	\$1.27/\$100 of assessed Value
Motor Vehicle	\$4.25/\$100 of assessed value	\$4.00/\$100 of assessed value
Business Furniture, Fixtures, Equipment and Machinery & Tools	\$4.25/\$100 of assessed value (40% of original cost)	\$4.00/\$100 of assessed value (40% of original cost)
Cigarette	\$32.5 mils/cigarette (\$0.65/pack)	\$27.5 mils/cigarette (\$0.55/pack)
Refuse Disposal – Business (1 time per week)	\$36.94/unit/month	\$26.45/unit/month
Refuse Disposal – Business (5 times per week)	\$91.56/unit/month	\$65.56/unit/month
Refuse Disposal – Residential/Single Unit	\$16.91/Unit/Month	\$14.50/Unit/Month
Refuse Disposal – Residential/Multiple Units	\$28.34/container/month	\$20.29/container/month
Combined Commercial/Residential	\$57.20/unit/month	\$40.95/unit/month
Wastewater Fees	\$2.78/100 Cubic Feet	\$2.67/100 Cubic Feet
Water Fees	\$3.49/100 Cubic Feet	\$3.37/100 Cubic Feet
Storm Water Fees - Residential	\$7.83/month	\$7.60/month
Storm Water Fees - Commercial	\$5.39/month per 2,000 square feet	\$5.24/month per 2,000 square feet

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Business Services, 810 Union Street, Suite 600, Norfolk, Virginia, 23510.

BASIC FINANCIAL STATEMENTS



CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets

June 30, 2007

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 169,568,931	\$ 48,834,387	\$ 218,403,318	\$ 55,873,278
Restricted cash held with fiscal agent	-	10,323,109	10,323,109	5,687,221
Investments	2,058,331	2,075,000	4,133,331	26,599,532
Receivables, (net)				
Taxes	60,097,267	-	60,097,267	-
Accounts	5,262,807	16,449,008	21,711,815	900,570
Notes	70,039	-	70,039	40,711,742
Accrued investment income	585,367	95,759	681,126	498,100
Other	-	496,976	496,976	1,072,037
Tenants	-	-	-	153,986
Internal balances	23,661,047	(23,661,047)	-	12,394,166
Due from other governments	7,889,065	-	7,889,065	33,286,495
Due from other agencies	-	-	-	836,930
Inventories	2,262,144	1,914,407	4,176,551	1,501,507
Property held for sale	-	-	-	14,560,285
Restricted cash and investments	-	27,621,902	27,621,902	11,315,593
Other assets	384,865	284,301	669,166	4,203,241
Non-depreciable capital assets (See Note VII)	137,664,691	86,776,682	224,441,373	61,714,254
Depreciable capital assets, net (See Note VII)	659,772,445	621,424,878	1,281,197,323	136,262,843
Total assets	1,069,276,999	792,635,362	1,861,912,361	407,571,780
LIABILITIES				
Vouchers/Accounts payable	16,228,782	9,214,947	25,443,729	13,225,221
Employees withholdings	702,930	-	702,930	-
Contract retainage	1,444,277	1,250,389	2,694,666	1,116,454
Accrued interest	6,176,936	3,742,676	9,919,612	-
Accrued payroll	4,246,257	401,794	4,648,051	28,154,735
Accrued expenses	5,458	-	5,458	-
Due to other agencies	-	-	-	2,726,464
Due to other governments	214,163	-	214,163	321,218
Due to other primary gov/component units	11,085,752	-	11,085,752	-
Other current liabilities	3,755,860	2,817,690	6,573,550	4,991,200
Deferred revenue	628,155	-	628,155	924,969
Liabilities payable from restricted assets	-	2,367,800	2,367,800	-
Other long-term liabilities	-	-	-	12,537,879
Long-term liabilities (See Note VIII) :				
Due within one year	80,849,050	22,817,509	103,666,559	15,015,312
Due in more than one year	476,741,297	444,620,193	921,361,490	69,374,831
Total liabilities	602,078,917	487,232,998	1,089,311,915	148,388,283
NET ASSETS				
Invested in capital assets, net of related debt	332,987,759	268,503,204	601,490,963	174,271,974
Restricted for:				
Perpetual care:				
Nonexpendable	6,111,395	-	6,111,395	-
Capital projects	-	2,526,000	2,526,000	6,304,586
Retirees' life insurance	620,000	-	620,000	-
Debt service	-	-	-	1,058,758
Other programs	-	-	-	19,012,886
Unrestricted	127,478,928	34,373,160	161,852,088	58,535,293
Total net assets	\$ 467,198,082	\$ 305,402,364	\$ 772,600,446	\$ 259,183,497

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government:	Expenses					
Governmental activities:						
General government	\$ 113,279,140	\$ 2,450,100	\$ -	\$ (96,664,688)	\$ -	\$ (96,664,688)
Judicial administration	46,943,748	777,827	-	(19,039,580)	-	(19,039,580)
Public safety	111,803,398	2,707,545	-	(103,667,341)	-	(103,667,341)
Public works	119,176,252	24,181,131	-	(74,407,361)	-	(74,407,361)
Health and public assistance	93,774,433	100,705	-	(51,513,829)	-	(51,513,829)
Culture and recreation	52,965,158	6,126,436	-	(43,309,384)	-	(43,309,384)
Community development	14,771,583	906,974	-	(11,081,563)	-	(11,081,563)
Education	97,594,910	-	-	(97,594,910)	-	(97,594,910)
Interest on long-term debt	19,618,419	-	-	(19,618,419)	-	(19,618,419)
Total governmental activities	669,927,041	37,250,718	-	(516,897,075)	-	(516,897,075)
Business-type activities:						
Water	60,510,576	69,815,932	594,926	-	9,900,282	9,900,282
Wastewater	17,377,348	22,314,109	135,710	-	5,072,471	5,072,471
Parking facilities	18,861,388	21,599,413	-	-	2,738,025	2,738,025
Total business-type activities	96,749,312	113,729,454	730,636	-	17,710,778	17,710,778
Total primary government	766,676,353	150,980,172	730,636	(516,897,075)	17,710,778	(499,186,297)
Component units:						
Norfolk Public Schools	388,841,788	5,154,585	11,695,171	-	-	\$ (83,868,104)
NRHA	82,200,912	18,539,301	5,530,934	-	-	2,351,688
Community Services Board	20,901,614	6,282,198	-	-	-	(2,689,817)
Total component units	\$ 471,944,314	\$ 29,976,084	\$ 17,226,105	-	-	\$ (84,206,233)
General revenues:						
Taxes:						
General Property taxes - Real Estate and Personal Property				241,314,836	-	241,314,836
Consumers' utility taxes				42,585,614	-	42,585,614
Sales and use taxes				32,401,913	-	32,401,913
Restaurant food taxes				28,577,946	-	28,577,946
Business license taxes				25,268,259	-	25,268,259
Hotel/Motel taxes				8,410,202	-	8,410,202
Cigarette taxes				6,956,889	-	6,956,889
Admissions taxes				3,986,393	-	3,986,393
Motor vehicle licenses				3,529,139	-	3,529,139
Franchise, Recordation and other miscellaneous local taxes				7,402,843	-	7,402,843
Interest and investment earnings				6,536,369	2,739,120	9,275,489
Grants and contributions not restricted to specific programs				66,524,258	333,350	66,857,608
Miscellaneous				4,845,306	3,553,589	8,398,895
Gain (loss) from sale of assets				65,480	(6,032)	59,448
Local government				-	-	101,095,910
Transfers				10,988,120	(10,988,120)	-
Total general revenues, special items, and transfers				489,393,567	(4,368,093)	485,025,474
Change in net assets				(27,503,508)	13,342,685	(14,160,823)
Net assets - beginning as previously reported				494,701,590	302,580,807	797,282,397
Adjustment to beginning net assets (Note XXV)				-	(10,521,128)	(10,521,128)
Net assets - ending				\$ 467,198,082	\$ 305,402,364	\$ 772,600,446
						\$ 259,183,497

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Balance Sheet - Governmental Funds
June 30, 2007

Exhibit A-1

	Major Funds			Non major	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
ASSETS					
Cash and cash equivalents	\$ 64,939,509	\$ 57,921,597	\$ -	\$ 42,853,614	\$ 165,714,720
Investments	-	2,058,331	-	-	2,058,331
Receivables, net					
Taxes	60,097,267	-	-	-	60,097,267
Accounts	1,751,147	-	-	3,353,471	5,104,618
Notes	70,039	-	-	-	70,039
Accrued investment income	578,138	7,229	-	-	585,367
Due from other funds	4,078,974	22,253,286	-	135,606	26,467,866
Receivable from other governments	6,247,095	-	-	1,641,970	7,889,065
Deposit contractors	200,000	181,781	-	3,084	384,865
Total assets	<u>\$ 137,962,169</u>	<u>\$ 82,422,224</u>	<u>\$ -</u>	<u>\$ 47,987,745</u>	<u>\$ 268,372,138</u>
LIABILITIES					
Vouchers/Accounts payable	\$ 9,055,225	\$ 5,300,850	\$ -	\$ 1,500,872	\$ 15,856,947
Employee withholdings	702,930	-	-	-	702,930
Contract retainage	-	1,258,296	-	185,981	1,444,277
Accrued payroll	3,918,780	7,587	-	255,887	4,182,254
Accrued expenses	-	-	-	5,458	5,458
Due to other funds	1,663,068	451,860	-	520,251	2,635,179
Due to agency fund	-	-	-	-	-
Due to other governments	-	-	-	214,163	214,163
Due to component units	28	11,085,724	-	-	11,085,752
Deferred revenue	30,750,087	-	-	807,898	31,557,985
Other liabilities	3,592,630	-	-	163,230	3,755,860
Total liabilities	<u>49,682,748</u>	<u>18,104,317</u>	<u>-</u>	<u>3,653,740</u>	<u>71,440,805</u>
FUND BALANCES					
Reserved for:					
Encumbrances	16,602,919	48,893,994	-	13,839,090	79,336,003
Perpetual care	-	-	-	6,111,395	6,111,395
Capital projects	-	-	-	33,642	33,642
Future expenditures	-	-	-	138,998	138,998
Retirees' life insurance	620,000	-	-	-	620,000
Unreserved, reported in:					
General Fund -Designated Future expenditures	32,305,011	15,423,913	-	-	47,728,924
General Fund - Undesignated	38,751,491	-	-	-	38,751,491
Special Revenue Funds	-	-	-	24,210,880	24,210,880
Total fund balances	<u>88,279,421</u>	<u>64,317,907</u>	<u>-</u>	<u>44,334,005</u>	<u>196,931,333</u>
Total liabilities and fund balances	<u>\$ 137,962,169</u>	<u>\$ 82,422,224</u>	<u>\$ -</u>	<u>\$ 47,987,745</u>	<u>\$ 268,372,138</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007

Exhibit A-2

Fund balances--total governmental funds	\$	196,931,333
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the funds :

	Cost of capital assets	1,941,037,953
	Depreciation expense to date	<u>(1,149,544,830)</u>
		791,493,123

Other long-term assets are not available to pay for
current-period expenditures and therefore are
deferred in the funds :

	Adjustment for deferred revenue	30,929,830
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Long-term liabilities, including bonds payable, are not
due and payable in the current period and therefore
are not reported in the funds :

	Bonds and notes payable	(469,725,036)
	Unamortized Bond premium	(15,283,714)
	Capital leases	(8,296,539)
	Retirement contribution	(22,307,851)
	Compensated absences	(14,235,750)
	Workers' compensation and claims liability	(25,066,660)
	Other	(1,941,138)
	Accrued interest payable	<u>(6,176,936)</u>
		(563,033,624)

Internal service funds		10,877,420
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Net Assets of Governmental Activities	\$	<u><u>467,198,082</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Fiscal Year Ended June 30, 2007

	Major Funds			Non-major	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
REVENUES					
General property taxes	\$ 233,112,175	\$ -	\$ -	\$ 2,286,551	\$ 235,398,726
Other local taxes	149,792,683	-	-	9,326,515	159,119,198
Permits and licenses	4,071,084	-	-	-	4,071,084
Fines and forfeitures	1,568,816	-	-	36,005	1,604,821
Use of money and property	7,220,387	2,691,237	-	1,193,449	11,105,073
Charges for services	18,083,478	-	-	18,987,497	37,070,975
Miscellaneous	4,100,316	776,640	-	6,813,574	11,690,530
Recovered costs	8,337,397	-	-	70,461	8,407,858
Special assessments	-	1,001	-	-	1,001
Intergovernmental	125,574,811	-	-	31,061,495	156,636,306
Total revenues	551,861,147	3,468,878	-	69,775,547	625,105,572
EXPENDITURES					
Current operating:					
General government	101,191,123	-	-	839,836	102,030,959
Judicial administration	44,115,143	-	-	1,058,268	45,173,411
Public safety	96,884,619	-	-	11,680,479	108,565,098
Public works	36,775,654	-	-	12,385,076	49,160,730
Health and public assistance	65,364,955	-	-	28,031,785	93,396,740
Culture and recreation	37,332,038	-	-	9,064,943	46,396,981
Education	97,594,910	-	-	-	97,594,910
Community development	6,182,579	-	-	4,975,150	11,157,729
Debt service:					
Principal	-	-	35,871,842	-	35,871,842
Interest and other charges	-	-	18,178,656	738,686	18,917,342
Capital outlay	-	89,548,741	-	5,046,234	94,594,975
Total expenditures	485,441,021	89,548,741	54,050,498	73,820,457	702,860,717
Excess (deficiency) of revenues over expenditures	66,420,126	(86,079,863)	(54,050,498)	(4,044,910)	(77,755,145)
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	15,480,435	-	15,480,435
Issuance of debt	-	121,705,272	-	-	121,705,272
Payment to bond refunding escrow agent	-	-	(15,480,435)	-	(15,480,435)
Premium on bonds	-	2,070,437	-	-	2,070,437
Unrealized gain on investments	-	65,480	-	-	65,480
Transfers in	11,824,628	6,351,189	54,050,498	17,027,448	89,253,763
Transfers out	(72,641,665)	(679,773)	-	(4,854,205)	(78,175,643)
Total other financing sources and uses	(60,817,037)	129,512,605	54,050,498	12,173,243	134,919,309
Net change in fund balance	5,603,089	43,432,742	-	8,128,333	57,164,164
Fund balances--beginning	82,676,332	20,885,165	-	36,205,672	139,767,169
Fund balances--ending	\$ 88,279,421	\$ 64,317,907	\$ -	\$ 44,334,005	\$ 196,931,333

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2007**

Net change in fund balances--total governmental funds		\$ 57,164,164
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
	Add Capital acquisitions	94,594,975
	Subtract Depreciation	<u>(98,110,198)</u> (3,515,223)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		6,095,853
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
	Add Debt repayment	35,932,414
	Excess amount of Refunding Debt over Refunded Debt	(957,025)
	Premium on bond sale	2,075,209
	GO Bond proceeds	<u>(123,775,709)</u> (86,725,111)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
	Change in long-term liabilities (Note VIII)	(4,621,146)
	Principal paydown on capital leases	3,907,117
	Principal paydown on note payables	11,943
	Accrued interest payable	<u>(350,171)</u> (1,052,257)
Internal service funds are used by management to charge the costs of of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		529,066
Change in Net Assets of Governmental Activities		<u><u>\$ (27,503,508)</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Statement of Fund Net Assets - Proprietary Funds
June 30, 2007

Exhibit B-1

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 25,773,253	\$ 9,191,979	\$ 13,869,155	\$ 48,834,387	\$ 3,854,211
Investments	-	-	2,075,000	2,075,000	-
Receivables:					
Accounts (net)	11,250,348	2,126,763	1,146,146	14,523,257	158,189
Unbilled accounts	1,041,527	884,224	-	1,925,751	-
Accrued investment income	88,087	-	7,672	95,759	-
Other receivables	345,000	151,976	-	496,976	-
Internal balances	421,666	-	412,899	834,565	-
Inventories	1,501,176	46,984	366,247	1,914,407	2,262,144
Other assets	-	-	284,301	284,301	-
Restricted cash held with fiscal agent	7,577,321	134,953	2,610,835	10,323,109	-
Total current assets	47,998,378	12,536,879	20,772,255	81,307,512	6,274,544
Restricted investments	9,000,000	13,087,519	5,534,383	27,621,902	-
Capital assets:					
Land and improvements	30,449,221	25,524,241	30,803,220	86,776,682	415,000
Buildings and equipment	525,484,285	159,594,039	138,238,933	823,317,257	10,467,381
Accumulated depreciation	(124,278,820)	(38,098,534)	(39,515,025)	(201,892,379)	(4,938,368)
Capital assets, net	431,654,686	147,019,746	129,527,128	708,201,560	5,944,013
Total noncurrent assets	440,654,686	160,107,265	135,061,511	735,823,462	5,944,013
Total assets	488,653,064	172,644,144	155,833,766	817,130,974	12,218,557
LIABILITIES					
Current liabilities:					
Vouchers payable	4,483,420	4,148,019	583,508	9,214,947	371,835
Contract retainage	465,078	736,085	49,226	1,250,389	-
Accrued interest	316,500	873,673	2,552,503	3,742,676	-
Accrued payroll	250,191	85,071	66,532	401,794	64,003
Internal balances	14,264,393	10,204,698	26,521	24,495,612	171,640
Obligations for Employees Retirement System	1,582,672	481,579	359,557	2,423,808	404,285
Current portion of bonds payable	11,577,746	4,624,412	3,306,797	19,508,955	-
Liabilities payable from restricted assets	2,367,800	-	-	2,367,800	-
Compensated absences	581,200	196,362	107,184	884,746	233,048
Other current liabilities	2,446,613	371,077	-	2,817,690	-
Total current liabilities	38,335,613	21,720,976	7,051,828	67,108,417	1,244,811
Noncurrent liabilities:					
General obligations payable	14,579,318	78,556,642	4,896,739	98,032,699	-
Revenue bonds payable	258,510,671	-	87,540,770	346,051,441	-
Compensated absences	273,500	114,538	148,015	536,053	86,113
Other long-term liabilities	-	-	-	-	10,213
Total noncurrent liabilities	273,363,489	78,671,180	92,585,524	444,620,193	96,326
Total liabilities	311,699,102	100,392,156	99,637,352	511,728,610	1,341,137
NET ASSETS					
Invested in capital assets, net of related debt	155,521,873	76,190,126	36,791,205	268,503,204	5,933,800
Restricted	-	-	2,526,000	2,526,000	-
Unrestricted	21,432,089	(3,938,138)	16,879,209	34,373,160	4,943,620
Total net assets	\$ 176,953,962	\$ 72,251,988	\$ 56,196,414	\$ 305,402,364	\$ 10,877,420

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For Year Ended June 30, 2007**

	Business-Type Activities				Governmental Activities Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals	
Operating revenues:					
Charges for services	\$ 69,815,932	\$ 22,314,109	\$ 21,599,413	\$ 113,729,454	\$ 15,012,599
Miscellaneous	2,941,067	612,522	-	3,553,589	70,915
Total operating revenues	<u>72,756,999</u>	<u>22,926,631</u>	<u>21,599,413</u>	<u>117,283,043</u>	<u>15,083,514</u>
Operating expenses:					
Personal services	12,737,845	4,414,184	7,144,607	24,296,636	3,250,429
Cost of goods sold	-	-	-	-	9,005,665
Plant operations	5,780,847	3,374,842	631,853	9,787,542	188,980
Chemicals	3,318,311	88,415	-	3,406,726	-
Provision of bad debts	52,634	(78,153)	-	(25,519)	62,860
Depreciation	10,796,178	3,101,499	3,784,987	17,682,664	281,755
Retirement contribution	1,582,668	481,585	359,552	2,423,805	404,277
Administrative expenses	2,064,339	1,569,499	377,727	4,011,565	-
Other	10,117,700	3,326,661	846,069	14,290,430	1,438,990
Total operating expenses	<u>46,450,522</u>	<u>16,278,532</u>	<u>13,144,795</u>	<u>75,873,849</u>	<u>14,632,956</u>
Operating income	<u>26,306,477</u>	<u>6,648,099</u>	<u>8,454,618</u>	<u>41,409,194</u>	<u>450,558</u>
Nonoperating revenue (expenses):					
Interest income, net of interest capitalized	1,704,565	285,455	749,100	2,739,120	168,508
Intergovernmental revenue	333,350	-	-	333,350	-
Interest expense and fiscal charges	(14,060,054)	(1,098,816)	(5,716,593)	(20,875,463)	-
Gain (loss) on sale or disposal of fixed assets	(6,032)	-	-	(6,032)	-
Total nonoperating expenses	<u>(12,028,171)</u>	<u>(813,361)</u>	<u>(4,967,493)</u>	<u>(17,809,025)</u>	<u>168,508</u>
Net income (loss) before contributions and transfers	14,278,306	5,834,738	3,487,125	23,600,169	619,066
Capital contribution	594,926	135,710	-	730,636	-
Transfers out	<u>(8,921,465)</u>	<u>(1,750,500)</u>	<u>(316,155)</u>	<u>(10,988,120)</u>	<u>(90,000)</u>
Change in net assets	5,951,767	4,219,948	3,170,970	13,342,685	529,066
Total net assets - beginning, as previously reported	172,605,662	76,949,701	53,025,444	302,580,807	10,348,354
Restatement of fund balances (Note XXV)	(1,603,467)	(8,917,661)	-	(10,521,128)	
Total net assets - ending	<u>\$ 176,953,962</u>	<u>\$ 72,251,988</u>	<u>\$ 56,196,414</u>	<u>\$ 305,402,364</u>	<u>\$ 10,877,420</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

**Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2007**

	Business-Type Activities				Governmental Activities-- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 73,208,597	\$ 22,404,330	\$ 21,535,244	\$ 117,148,171	\$ 15,215,990
Payments to suppliers	(19,917,338)	(11,885,429)	(1,633,133)	(33,435,900)	(11,360,439)
Payments to employees	(12,676,749)	(4,362,977)	(7,518,113)	(24,557,839)	(3,615,460)
Other receipts (payments)	1,261,223	36,422	(39,521)	1,258,124	50,823
Net cash provided by operating activities	<u>41,875,733</u>	<u>6,192,346</u>	<u>12,344,477</u>	<u>60,412,556</u>	<u>290,914</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Internal activity	10,347,451	7,006,587	(386,378)	16,967,660	99,655
Intergovernmental revenue	333,350	-	-	333,350	-
Operating subsidies and transfers to other funds	(8,921,465)	(1,750,500)	(316,155)	(10,988,120)	-
Net cash used by noncapital financing activities	<u>1,759,336</u>	<u>5,256,087</u>	<u>(702,533)</u>	<u>6,312,890</u>	<u>99,655</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	-	24,489,065	-	24,489,065	-
Capital contributions	594,926	135,710	-	730,636	-
Purchases of capital assets	(18,029,010)	(18,780,410)	(2,932,700)	(39,742,120)	(81,424)
Refunding of debt principal	-	(316,590)	-	(316,590)	-
Principal paid on capital debt	(11,046,525)	(4,622,351)	(3,175,933)	(18,844,809)	-
Interest paid on capital debt	(14,880,249)	(2,659,498)	(4,590,180)	(22,129,927)	-
Net cash provided (used) by capital and related financing activities	<u>(43,360,858)</u>	<u>(1,754,074)</u>	<u>(10,698,813)</u>	<u>(55,813,745)</u>	<u>(81,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	6,079,201	(684,775)	1,115,947	6,510,373	-
Purchase of investments	-	-	(155,000)	(155,000)	-
Net proceeds from sale of certificate of deposit	(100,000)	-	-	(100,000)	-
Interest and dividends	1,690,779	285,455	749,100	2,725,334	168,508
Net cash provided (used) by investing activities	<u>7,669,980</u>	<u>(399,320)</u>	<u>1,710,047</u>	<u>8,980,707</u>	<u>168,508</u>
Net increase in cash and cash equivalents	7,944,191	9,295,039	2,653,178	19,892,408	477,653
Cash and cash equivalents - beginning of the year	<u>25,406,383</u>	<u>31,893</u>	<u>13,826,812</u>	<u>39,265,088</u>	<u>3,376,558</u>
Cash and cash equivalents - end of the year	<u>\$ 33,350,574</u>	<u>\$ 9,326,932</u>	<u>\$ 16,479,990</u>	<u>\$ 59,157,496</u>	<u>\$ 3,854,211</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (Loss)	\$ 26,306,477	\$ 6,648,099	\$ 8,454,618	\$ 41,409,194	\$ 450,558
Adjustments to reconcile operating income (Loss) to net cash provided by operating activities:					
Depreciation expense	10,796,178	3,101,499	3,784,987	17,682,664	281,755
Provision for bad debt	52,634	(78,153)	-	(25,519)	-
Change in assets and liabilities:					
Receivables, net	336,598	(373,079)	(64,169)	(100,650)	266,250
Other receivables	115,000	(149,222)	-	(34,222)	-
Inventories	(16,015)	(237)	(28,064)	(44,316)	(107,659)
Other assets	-	-	(11,457)	(11,457)	-
Vouchers payables	2,962,542	(3,044,190)	222,517	140,869	(636,804)
Accrued payroll	(13,576)	416	(4,094)	(17,254)	(503)
Other liabilities	1,335,895	87,213	(9,861)	1,413,247	37,317
Net cash provided by operating activities	<u>\$ 41,875,733</u>	<u>\$ 6,192,346</u>	<u>\$ 12,344,477</u>	<u>\$ 60,412,556</u>	<u>\$ 290,914</u>
Reconciliation of cash and cash equivalents to the statement of net assets:					
Cash and cash equivalents	\$ 25,773,253	\$ 9,191,979	\$ 13,869,155	\$ 48,834,387	\$ 3,854,211
Restricted cash with fiscal agent	7,577,321	134,953	2,610,835	10,323,109	-
Total cash and cash equivalents per statement of net assets	<u>\$ 33,350,574</u>	<u>\$ 9,326,932</u>	<u>\$ 16,479,990</u>	<u>\$ 59,157,496</u>	<u>\$ 3,854,211</u>
Noncash investing, capital, and financing activities:					
(Gain) loss on sale or disposal of capital assets	\$ 6,032	\$ -	\$ -	\$ 6,032	\$ -
Acquisition of capital assets through change in contract retainage	\$ 465,078	\$ 174,221	\$ 49,229	\$ 688,528	\$ -
Acquisition of capital assets through vouchers payable	\$ -	\$ 4,020,126	\$ -	\$ 4,020,126	\$ -
Capitalized interest, less interest earned on certain long-term construction contracts	<u>\$ 705,895</u>	<u>\$ 1,912,355</u>	<u>\$ -</u>	<u>\$ 2,618,250</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Statement of Fiduciary Net Assets
June 30, 2007

Exhibit C-1

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 58,493,577	\$ 4,996,411
Investments, fair value		
United States government securities	6,339,173	-
Corporate bonds and debentures, including obligations of national mortgage associations	278,840,165	-
Common stocks	187,825,518	-
Domestic equity funds	236,371,057	-
International equity funds	195,286,558	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	-	784
Retirement contribution	25,135,944	-
Accrued investment income	2,617,553	-
Due from broker for securities sold	16,926,275	-
Total assets	<u>1,007,835,820</u>	<u>4,997,195</u>
LIABILITIES		
Vouchers payable	828,215	176,469
Due to brokers for securities purchased	45,158,947	-
Other liabilities	-	4,820,726
Total liabilities	<u>45,987,162</u>	<u>4,997,195</u>
NET ASSETS		
Reserved for:		
Assets held in trust for pension benefits	961,848,658	-
Total net assets	<u>\$ 961,848,658</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2007

Exhibit C-2

	<u>2007</u>
Additions:	
Investment income:	
Net appreciation in fair value	
of investments	\$ 111,007,648
Interest	16,034,982
Dividends	4,389,716
Other	443,853
	<u>131,876,199</u>
Contributions	25,135,944
Less investment expense	(3,151,380)
Net investment income	<u>153,860,763</u>
 Total additions	 <u>153,860,763</u>
 Deductions:	
Benefits paid directly to participants	52,717,254
Refunds of contributions	24,794
Beneficiary payments	2,773,752
Administrative fees	734,282
Total deductions	<u>56,250,082</u>
 Net increase	 97,610,681
 Net assets held in trust for pension benefits:	
Beginning of year	864,237,977
End of year	<u><u>\$ 961,848,658</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA
Statement of Net Assets - Component Units
June 30, 2007

Exhibit D-1

	Norfolk Public Schools	Norfolk Redevelopment & Housing Authority	Norfolk Community Services Board	Total
ASSETS				
Cash and cash equivalents	\$ 25,212,270	\$ 24,911,799	\$ 5,749,209	\$ 55,873,278
Cash held in escrow with fiscal agent	-	-	-	-
Restricted cash held with fiscal agent	-	5,687,221	-	5,687,221
Investments	-	22,575,651	4,023,881	26,599,532
Receivables:				
Accounts, net of allowance for uncollectible accounts	342,720	-	557,850	900,570
Tenants	-	153,986	-	153,986
Interest	-	480,140	17,960	498,100
Notes	-	40,711,742	-	40,711,742
Other	-	719,836	352,201	1,072,037
Due from primary government	11,085,724	1,308,414	28	12,394,166
Due from other governments	30,507,666	2,778,829	-	33,286,495
Due from other agencies	836,930	-	-	836,930
Inventories	1,117,658	383,849	-	1,501,507
Property held for sale	-	14,560,285	-	14,560,285
Restricted cash and investments	-	11,315,593	-	11,315,593
Prepaid expenses	-	667,860	86,452	754,312
Other assets	-	3,448,929	-	3,448,929
Capital assets, net	66,064,302	131,205,175	707,620	197,977,097
Total assets	<u>135,167,270</u>	<u>260,909,309</u>	<u>11,495,201</u>	<u>407,571,780</u>
LIABILITIES				
Vouchers/Accounts payable	9,000,476	3,618,494	606,251	13,225,221
Contract retainage	1,116,454	-	-	1,116,454
Accrued expenses	-	-	-	-
Accrued interest	-	-	-	-
Accrued payroll	27,436,844	328,001	389,890	28,154,735
Due to other agencies	2,726,464	-	-	2,726,464
Due to other governments	-	321,218	-	321,218
Due to primary government	-	-	-	-
Tenants deposits	-	1,027,534	-	1,027,534
Other deposits/liabilities	584,807	3,350,987	27,872	3,963,666
Deferred revenue	-	923,813	1,156	924,969
Escrow deposits	-	-	-	-
Current vested compensated absences	603,259	192,580	689,557	1,485,396
Other current liabilities	405,528	12,218,666	905,722	13,529,916
Long-term vested compensated absences	8,611,500	1,491,077	319,685	10,422,262
General Obligation Bonds and Notes Payable	-	57,645,512	-	57,645,512
Claims and judgements liability	1,307,057	-	-	1,307,057
Other long-term liabilities	-	12,537,879	-	12,537,879
Total liabilities	<u>51,792,389</u>	<u>93,655,761</u>	<u>2,940,133</u>	<u>148,388,283</u>
NET ASSETS				
Invested in capital assets, net of related debt	66,064,302	107,500,052	707,620	174,271,974
Restricted for:				
Capital projects	2,123,601	4,180,985	-	6,304,586
Debt service	-	1,058,758	-	1,058,758
Other programs	6,852,987	11,951,899	208,000	19,012,886
Unrestricted	8,333,991	42,561,854	7,639,448	58,535,293
Total net assets	<u>\$ 83,374,881</u>	<u>\$ 167,253,548</u>	<u>\$ 8,555,068</u>	<u>\$ 259,183,497</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NORFOLK, VIRGINIA

Statement of Activities - Component Units
Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Norfolk Public Schools	Totals
Norfolk Public Schools:						
Instructional	\$ 261,248,259	\$ 1,906,306	\$ 247,424,183	\$ -	\$ (11,917,770)	\$ (11,917,770)
Administration, Attendance, and Health	11,690,271	-	-	-	(11,690,271)	(11,690,271)
Pupil Transportation	10,820,380	-	-	-	(10,820,380)	(10,820,380)
Operation and Maintenance	35,397,686	-	-	-	(35,397,686)	(35,397,686)
Information Technology	9,607,558	-	-	-	(9,607,558)	(9,607,558)
School Facilities	27,241,017	-	-	11,695,171	(15,545,846)	(15,545,846)
Food Services	12,836,617	3,246,279	10,699,745	-	1,111,407	1,111,407
Total Norfolk Public Schools	368,841,788	5,154,585	258,123,928	11,695,171	(93,868,104)	(93,868,104)
Norfolk Redevelopment and Housing Authority:						
Business-type activities	81,351,928	18,539,301	60,482,365	5,530,934	3,200,672	
Component units	848,984	-	-	-	(848,984)	
Total NRHA	82,200,912	18,539,301	60,482,365	5,530,934	2,351,688	2,351,688
Community Services Board:						
Health and public assistance	20,901,614	6,282,198	11,929,599	-	(2,689,817)	(2,689,817)
Total component units	\$ 471,944,314	\$ 29,976,084	\$ 330,535,892	\$ 17,226,105	\$ (2,689,817)	(94,206,233)
General revenues:						
Gain (Loss) from sale of fixed assets					(14,514,880)	(14,514,880)
Interest and investment earnings					4,435,527	4,435,527
Local government					-	-
Miscellaneous					4,764,472	4,764,472
Total general revenues					(5,314,881)	(5,314,881)
Change in net assets					(2,963,193)	(2,963,193)
Net assets--beginning					7,619,964	7,619,964
Change in reporting component unit					75,754,917	75,754,917
Net assets--ending					-	-
					\$ 83,374,881	\$ 83,374,881
					\$ 167,253,548	\$ 167,253,548
					\$ 8,555,068	\$ 8,555,068
					\$ 259,183,497	\$ 259,183,497

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS



CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

I. Summary of Significant Accounting Policies

A. Financial Reporting Entity Information

The City of Norfolk (the “City”) was incorporated February 13, 1845 and operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 242,000 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries, and general administration.

Blended Component Unit: *The Employees' Retirement System of the City of Norfolk (ERS)* has a nine-member Board of Trustees. Seven members are appointed by the City Council. The City Manager and Director of Finance are ex-officio members. The ERS is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees and certain employees of the Constitutional Officers covered by the Virginia Supplemental Retirement System, as authorized by Section 143(a) of the City Charter. The ERS was established and placed under the management of the Board of Trustees for the purpose of providing retirement and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes its contributions, in conjunction with investment earnings of the ERS, to provide the funding for pension benefits and administrative costs.

Discretely Presented Component Units: Although legally separate entities are in substance part of the City’s operations, each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The component units discussed below are included in the City's financial reporting entity due to their financial relationships with the City.

The School Board for the City of Norfolk (School Board), which has seven members, is the operating body that establishes the educational and financial programs and policies for the City’s public school system. School Board members are appointed by the City Council. The City levies taxes for its operation, issues bonds or enters into capital leases for its capital requirements and approves its annual operating budget. The School Board for the City of Norfolk is comprised of the School Operating Fund, Capital Project Fund, Child Nutrition Fund, the School Special Revenue Funds and the School Board Agency Funds.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

The Norfolk Redevelopment and Housing Authority (NRHA), a political subdivision of the Commonwealth, was created by the City on July 30, 1940 under the provisions of the United States Housing Act of 1937. NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. NRHA develops its operating budget without approval from City Council and executes contracts on its own behalf. NRHA is responsible for its own fiscal matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects. NRHA is considered to be a component unit of the City's reporting entity primarily due to its financial relationship.

In 1997, the City entered into a supplemental cooperation agreement with NRHA to assist in the financing and construction of the Nordstrom Store, in the MacArthur Center regional shopping mall. The construction of the Nordstrom Store was financed with a loan partially secured by ground rental and store rental payments. The loan is further secured by a pledge of the City, subject to an appropriation of City Council, to fund any deficits in meeting annual debt service requirements.

The Norfolk Community Services Board (CSB) was created in 1969 by a resolution of the City Council. It is to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk. The CSB is composed of 15 members appointed by City Council. City Council approves the CSB's annual operating budget.

Complete financial statements of the individual component units can be obtained from their respective administrative offices:

The City of Norfolk Retirement Board
810 Union Street, City Hall Bldg. Rm. 309
Norfolk, Virginia 23510

The School Board for the City of Norfolk
800 East City Hall Avenue
P O Box 1357
Norfolk, Virginia 23501-1357

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

The Norfolk Redevelopment & Housing Authority
201 Granby Street
Norfolk, Virginia 23501

The Norfolk Community Services Board
Board Administration
248 West Bute Street
Norfolk, Virginia 23510-1404

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the *primary government* is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt obligations of governmental funds and proprietary funds.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities of the City, some of which are also used by the School Board.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the City's water system, treatment plant and distribution systems.

The *Wastewater Fund* accounts for the activities of the City's sewage pumping stations and collection systems.

The *Parking Facilities Fund* accounts for the activities of the City's owned parking facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for the City's Storehouse operations and fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Permanent Fund* is used to report resources that are legally restricted to the extent that only the interest may be used to support the City's cemetery operations.

The *Agency Funds* are used to account for the assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and or other funds. Agency funds do not involve the measurement of results of operations as they are custodial in nature (assets=liabilities).

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary fund financial statements do not have a measurement focus. The City's discretely presented component units are also included in the government-wide financial statements utilizing the same basis of accounting.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 45 days of the end of the fiscal year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. In compliance with Section 2.9, Uniform Financial Reporting Manual for Virginia Counties and Municipalities, property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year-end are reported as deferred revenue. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be financed by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental funds susceptible to accrual include the following:

- Real property taxes
- Personal property taxes
- Sales and use taxes
- Consumer utility taxes
- Environmental storm water billings
- Revenue from the Commonwealth
 - Shared expenses
 - Categorical aid
- Revenue from the federal government

Expenditures, other than interest on general long-term obligations, are recorded as the related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the City's Water, Wastewater and Parking Facilities enterprise funds, and of the City's internal service funds are charges to customers for sales and services, administrative and interest expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund, Water Utility Fund, Wastewater Utility Fund, Parking Facilities Fund, Storm Water Special Revenue Fund, Nauticus Special Revenue Fund, Maritime Facility Special Revenue Fund, Public Amenities Special Revenue Fund, Cemeteries Special Revenue Fund, Emergency Operations Center Special Revenue Fund, Golf Special Revenue Fund, Towing Special Revenue Fund and Internal Service Funds. Project length budgets are appropriated for the Capital Projects Fund. All funds are under formal budgetary control.

No less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted. Then, on or before July 1, the budget is legally enacted through adoption of an ordinance. The property taxes included in the budget become a lien on real properties on July 1.

The ordinance for the annual operating budget appropriates funds by department. Additional budgetary controls are exercised administratively, both on an

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

appropriation unit basis over parts, all, or any combination of object categories (budgetary account groups such as: (1) personal services; (2) materials, supplies and repairs; (3) general operations and fixed charges; (4) equipment; (5) public assistance; and (6) all purpose appropriations), as well as on a line item basis over individual objects (budgetary accounts). The City Manager is authorized to transfer funds without further approvals by City Council.

The School Board manages and controls all funds made available for public purposes by the City Council. In accordance with the Code of Virginia, the School Board has exclusive authority to expend funds within the total amounts appropriated by City Council.

Consistent with the enabling ordinance, the *Schedules of Revenues and Expenditures – Budget and Actual* of the General Fund presented in Exhibit E include the revenues and expenditures - budget and actual of the School Board.

A reconciliation of revenues and expenditures reported in accordance with accounting principles generally accepted in the United States (GAAP) and those presented in accordance with non-GAAP budgetary basis, for the general fund, can be found following Exhibit E-2. The budgets for the enterprise funds and internal service funds are prepared on a basis generally consistent with accounting principles generally accepted in the United States of America.

With the exception of Capital Projects and Grant appropriations, unencumbered annual appropriations lapse at the end of the fiscal year. City Council may authorize supplemental appropriations to the operating budgets during the fiscal year. Budgeted amounts as reported in the financial statements represent the original appropriations, and all supplemental adjustments or appropriations.

City Council adopts a capital improvement budget on a project basis. As in the case of the General Fund budget, these budgets are submitted by the City Manager, public hearings are held and the budgets are legally enacted through adoption of an ordinance. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled. Amendments to these budgets are affected by City Council.

E. Deposits and Investments

The City's cash and cash equivalents include cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investment statutes authorize the City and the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the LGIP is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. The Pension Trust Fund is authorized to invest in common stocks.

Investments of the City as well as its component units are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively. Other investments are stated at their fair value; these investments are reported in the accompanying financial statements as cash and cash equivalents, unless the original investment period exceeded three months, in which case they are reported as investments.

F. Restricted Assets

Restricted assets are those whose use is subject to externally imposed constraints such as creditors through debt covenants, grantors or laws or regulations of other governments.

G. Notes Receivable

Notes receivable reported in the governmental funds represent assets that are offset by a reservation of fund balance in the fund financial statements since funds do not meet the availability criteria. Payments on these balances will be recognized as revenue as they are received.

H. Interfund Transactions

During the normal course of operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying fund financial statements generally reflect such transactions as transfers.

Internal service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the internal service

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

funds as operating expenditures or expenses. Since internal service funds generally support governmental activities rather than business-type activities, they are consolidated with the governmental funds in the government-wide financial statements. A discrete presentation of the City's internal service funds can be found in the "Other Supplementary Information" section of this document.

The General Fund provides administrative services to enterprise funds and internal service funds. Charges for these services are treated as operating expenses by the enterprise and internal service funds and as revenue by the General Fund in the fund financial statements.

I. Inventories

Inventories are stated at cost, using either the first-in, first-out, or the moving average method. Inventories in the governmental funds consist of expendable supplies held for consumption for which the cost is recorded as an expenditure when acquired, i.e., the "purchase method." Reported inventories in the governmental funds are offset by a fund balance reserve, indicating they are not currently available expendable resources. Proprietary funds expense inventories when consumed.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported at historical cost less accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements and in proprietary funds. Capital assets are defined by the City's Capitalization Policy as assets with an initial, individual cost of more than \$2,000 and an estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the government-wide statement of governmental activities. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated and any resulting gain or loss is reflected as nonoperating revenue or expense.

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the City are reported at the lower of the carrying value or fair value. Impairment losses on capital assets that will continue to be used by the City are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances result in the impairment of a capital asset are netted against the impairment loss.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets purchased by enterprise and internal service funds are stated at cost, less accumulated depreciation.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	Governmental Funds	Enterprise Funds	Internal Service Funds
		(In years)	
Building and improvements	40	10-75	40-50
Improvements other than buildings	15-25	10-99	15
Warehouse equipment and fixtures	-	-	7-10
Transmission and distribution mains	-	50-99	-
Service meters and meter installation	-	35-50	-
Pumping and other water/wastewater equipment	-	10-30	-
Vehicles and garage equipment	4-10	4-10	4-25
Data processing equipment	5-10	5-10	5-10
Furniture, fixtures and equipment	3-25	3-25	3-20

K. Compensated Absences

It is the City and School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by City employees. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay when the employee separates from service. The entire unpaid liability for vacation leave is recorded in the respective funds in the government-wide financial statements.

Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave upon retirement. Accumulated vacation leave cannot exceed 50 days for School Board employees. School Board employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. Most School

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Board food service employees have ten-month employment contracts and are not entitled to vacation.

L. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes.

Reservations of fund balances are used to indicate that portion that is not appropriable for expenditures or to identify a portion of a fund's equity as legally segregated for a specific future use. Designations of unreserved fund balances in governmental funds are established to indicate City management's tentative plans for use of financial resources in a future period.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

The City performed a remeasurement of its streets during fiscal year 2006 and this remeasurement resulted in an increase to the historical lane mile measurement of streets and bridges infrastructure assets. As a result of this remeasurement which is considered a change in estimate, the beginning net assets balance was not restated however an adjustment was made to the June 30, 2006 infrastructure asset additions and accumulated depreciation of \$15,730,875, net. The remeasurement was completed in fiscal year 2007. An additional adjustment was made to the June 30, 2007 infrastructure asset additions and accumulated depreciation which resulted in a net decrease of \$784,851.

II. Deposits and Investments

Custodial Credit Risk - Deposits

The City maintains a cash and investments pool for all funds except the Pension Trust and Permanent Funds. Each fund's portion of the pool is disclosed in the statement of net assets and balance sheet as cash and cash equivalents. The cash and investments of the Pension Trust and Permanent Funds are held separately from the pooled City funds.

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In accordance with its investment policy, all deposits of the City and its Component Units are held in City Council designated official depositories and are collateralized in accordance with the Virginia Security for Public Deposits Act ("the Act"), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution whose public deposits are collateralized in accordance with the requirements of the Act fails, the entire market value of the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The City's equity and fixed income investments (except for bank deposits) are not insured and are registered in the name of the City and held by State Street Bank as custodian. The remaining City investments are held by the City or in the City's name by the City's custodial banks. The City and its Component Units have no formal policy regarding custodial credit risk for investments.

In accordance with its investment policy, NRHA invests temporary cash surpluses in repurchase agreements. The repurchase agreements are fully collateralized by the U.S. Government and government agency securities pledged in NRHA's name. The collateral is held by the pledging financial institution in its own name.

Interest rate risk

The City's Pension Trust Fund uses a "Duration" policy to manage its interest rate risk. The duration policy is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Other than for the assets of the City's Pension Fund, neither the City nor discretely presented Component Units have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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In accordance with its investment policy, NRHA manages its exposure to declines in fair value by investing operating funds in securities maturing in periods of up to one year, or a lesser period that coincides with expected disbursements. Investment of reserves not needed for operations are typically held to maturity.

Segmented Time Distribution (as of June 30, 2007)

Primary Government

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 year	1-5 years	6-10 years	10 years +
Corporate Debt	137,512,216	7,259,886	57,738,864	5,094,089	67,419,377
Floaters	300,506	-	300,506	-	-
Mortgages	141,027,443	1,524,043	9,515,306	4,505,841	125,482,253
U.S Treasury Notes	224,705	224,705	-	-	-
U.S. Agency	12,130,365	2,334,609	6,419,342	-	3,376,414
Domestic Equity Funds	187,825,517	N/A	N/A	N/A	N/A
Common Stock	236,371,057	N/A	N/A	N/A	N/A
International Equity Funds	195,286,558	N/A	N/A	N/A	N/A
Money Market Investments included		N/A	N/A	N/A	N/A
in Cash and Cash Equivalents	220,645,920	N/A	N/A	N/A	N/A

NRHA

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1 year	1-2 years	2-4 years
U.S. Agency Notes	40,280,064	31,336,044	8,944,020	-
Repurchase agreement	2,015,570	2,015,570	-	-
Commercial Paper	2,490,097	2,490,097	-	-
Certificates of deposit	693,711	693,711	-	-

CSB

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10 years +
Mutual Funds	71,680	71,680	-	-	-
Money Market Funds	1,250,000	1,250,000	-	-	-
US Government Securities	2,483,983	1,506,457	638,677	194,890	143,959

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust Fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's are not permitted. The City

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invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Those securities are included in reported investments in the Retirement System financial statements. Investments in derivatives with a cost of \$76,234,969 and a market value of \$74,011,541 were held at June 30, 2007. The City's rated debt investments as of June 30, 2007 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

The Primary Government's Rated Debt Investment						
Fair Quality Ratings (S&P)	Corporate Debt	Floaters	Mortgages	U. S. Treasury Notes	U. S Agency	Options
AAA	\$ 57,940,491	\$ 300,506	\$ 141,027,443	\$ 224,705	\$ 12,130,365	\$ -
AA2	-	-	-	-	-	-
AA+	3,060,936	-	-	-	-	(2,679)
AA	11,556,000	-	-	-	-	1,131
AA-	11,882,183	-	-	-	-	(18)
A	14,270,505	-	-	-	-	-
A+	7,576,691	-	-	-	-	(4,136)
A-	3,335,039	-	-	-	-	-
BBB	7,878,495	-	-	-	-	-
BBB+	3,457,837	-	-	-	-	-
BBB-	4,293,651	-	-	-	-	-
BB+	226,760	-	-	-	-	-
BB	235,687	-	-	-	-	-
B	2,216,209	-	-	-	-	-
Not Rated	9,581,632	-	-	-	-	(167,313)
	<u>\$ 137,512,116</u>	<u>\$ 300,506</u>	<u>\$ 141,027,443</u>	<u>\$ 224,705</u>	<u>\$ 12,130,365</u>	<u>\$ (173,015)</u>

The City held \$187,825,517 and \$195,286,558 in domestic and international equity funds, respectively, and an additional \$236,371,057 in common stock which are unrated securities.

The CSB's investments in US Government Securities and commercial bonds were rated AAA by Standard and Poor's. Its mutual funds were unrated.

NRHA's repurchase agreement represents an overnight investment of excess cash deposits with a bank and is collateralized under the Act. The investment in commercial paper is AAA rated.

Concentration of credit risk

Concentration risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. Mutual funds are excluded from this disclosure

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requirement. For the City's Pension Trust funds, no more than 20% of each Account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated Baa (1,2,& 3) or BBB (+ or -). Upon written request from an investment manager, the Retirement Board of Trustees will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-. More than 5% of the System's investments are in the FNMA investment pools, SSGA, S&P 500 Flagship Fund and LSV International Value Equity Trust. These investments represent 8.5%, 19.6% and 6.4%, respectively, of the System's total investments.

The CSB has more than 5 percent of their investments in Cohen & Streets Advantage, Easton Vance Senior Income, ING Prime Rate Trust, Nurveen Real Estate Income Fund, and Pioneer High Income Trust money market funds. These investments represent 6.2 percent of the CSB's total investments.

Other than for the assets of the City's Pension Fund, neither the City nor its Component Units have a formal investment policy regarding the amount it may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City's Pension Trust Fund's exposure to foreign currency risk is presented as follows:

Currency	Short-Term	Fixed-Income	Equity	Options	Total
Austrian Dollar	\$ 55,393	\$ 102	\$ -	\$ -	\$ 55,495
Brazilian Real	-	28,072	-	-	28,072
Canadian Dollar	1,235	-	-	-	1,235
Euro	710,590	47,325	-	-	757,915
Pound Sterling	592,833	-	33,094,448	170,830	33,858,111
Japanese Yen	294,279	(38,676)	-	-	255,603
	<u>\$ 1,654,330</u>	<u>\$ 36,823</u>	<u>\$ 33,094,448</u>	<u>\$ 170,830</u>	<u>\$ 34,956,431</u>

Neither the City nor its Component Units have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates.

The City's Component Units did not have any exposure to foreign currency risk at year end.

III. Property Taxes

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or

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amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2007, on each \$100 of assessed value, were \$1.27 for real property, \$.18 for the Downtown Service District, \$4.00 for personal property, \$1.50 for recreational vehicles, \$4.00 for machinery and tools, \$1.35 for mobile homes, \$2.40 for airplanes, \$.01 for pleasure boats and \$1.50 for business boats. Disabled veterans pay a discount rate of \$3.00 for personal property.

The property tax calendar is as follows:

	Real Property	Other than Real Property
Lien date	July 1	January 1
Levy date for existing property	July 1	January 1
Levy date for real property improvement, new construction or newly acquired property	October 1, January 1 and April 1	Date of Acquisition
Due dates	September 30, December 5, March 31 and June 5	June 5 or 30 days after acquisition
Collection dates	On or before due date	

In the event any installment of taxes on any of the above properties is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

IV. Accounts Receivable

A. Unbilled Accounts Receivable:

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2007:

Water Utility Fund	\$ 1,041,527
Wastewater Utility Fund	884,224
	<u>\$ 1,925,751</u>

The associated revenue is included in net charges for services.

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B. Allowances for Uncollectible Accounts Receivable

Allowances for uncollectible accounts receivable are generally established using historical collection data, specific account analysis and subsequent cash receipts. The allowances at June 30, 2007 are as follows:

Primary Government:

General Fund:	
Taxes	\$ 15,150,888
Accounts	<u>17,838,100</u>
	32,988,988
Special Revenue - Storm Water Fund	212,900
Water Utility Fund	1,518,291
Wastewater Utility Fund	<u>451,206</u>
Total - Primary Government	<u><u>\$ 35,171,385</u></u>

Component Units:

Norfolk Public Schools	\$ 188,490
Norfolk Redevelopment and Housing Authority	47,758
Community Services Board	<u>60,011</u>
Total - Component Units	<u><u>\$ 296,259</u></u>

V. Notes Receivable

Notes receivable, at June 30, are as follows:

Primary Government: General Fund

WHRO (Hampton Roads Educational Telecommunications Association, Inc.)	<u>\$70,039</u>
Total Primary government	<u>\$70,039</u>

Component Unit: Norfolk Redevelopment and Housing Authority	\$57,305,666
Less allowance for doubtful accounts	<u>(16,593,924)</u>
Net	<u><u>\$40,711,742</u></u>

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VI. Due From Other Governments

Amounts due from other governments, at June 30, are as follows:

	General	Total	Component Units	
	Fund	Primary Government	School Board	NRHA
Commonwealth of Virginia:				
Shared expenses	\$ 6,110,739	\$ 6,110,739	-	
Categorical aid	-	-	-	-
Noncategorical aid	136,356	136,356	-	-
Various grants	-	1,056,666	\$ 20,073,839	-
Total - Commonwealth	6,247,095	7,303,761	20,073,839	-
Federal Government:				
Various grants	-	585,304	10,433,827	\$ 2,778,829
Total - Federal	-	585,304	10,433,827	2,778,829
Total - Due from other governments	\$ 6,247,095	\$ 7,889,065	\$ 30,507,666	\$ 2,778,829

VII. Changes in Capital Assets

A summary of changes in capital assets, at June 30, follows:

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	Primary Government			
	Beginning Balance *	Additions	Retirements	Ending Balance
Governmental activities				
Non-depreciable capital assets:				
Land	\$ 31,502,008	\$ 6,511,234	\$ (116,591)	\$ 37,896,651
Construction in progress	97,978,812	25,882,581	(24,093,353)	99,768,040
Total non-depreciable assets	129,480,820	32,393,815	(24,209,944)	137,664,691
Depreciable assets:				
Buildings	490,634,214	\$ 38,037,234	\$ -	528,671,448
Improvements other than buildings	25,137,220	1,461,507	-	26,598,727
Equipment	101,356,398	14,237,921	(2,987,014)	112,607,305
Infrastructure	1,131,897,550	17,914,632	(3,434,019)	1,146,378,163
Total depreciable assets	1,749,025,382	71,651,294	(6,421,033)	1,814,255,643
Less accumulated depreciation:				
Buildings	(208,131,033)	\$ (13,025,212)	\$ -	(221,156,245)
Improvements other than buildings	(11,121,994)	(696,955)	-	(11,818,949)
Equipment	(58,960,243)	(12,168,289)	2,962,511	(68,166,021)
Infrastructure	(799,140,241)	(57,366,462)	3,164,720	(853,341,983)
Total accumulated depreciation	(1,077,353,511)	(83,256,918)	6,127,231	(1,154,483,198)
Depreciable assets, net	671,671,871	(11,605,624)	(293,802)	659,772,445
Total governmental activities capital assets, net	\$ 801,152,691	\$ 20,788,191	\$ (24,503,746)	\$ 797,437,136
Business-type activities				
Non-depreciable capital assets:	As Restated			
Land	\$ 43,075,947	\$ 23,877	\$ -	\$ 43,099,824
Construction-in-progress	32,823,910	39,256,393	(28,403,445)	43,676,858
Total non-depreciable assets	75,899,857	39,280,270	(28,403,445)	86,776,682
Depreciable assets:				
Land improvements	7,101,351	-	-	7,101,351
Buildings and equipment	782,328,013	35,730,636	(1,842,743)	816,215,906
Total depreciable assets	789,429,364	35,730,636	(1,842,743)	823,317,257
Less accumulated depreciation:				
Buildings and equipment	(186,052,458)	(17,682,664)	1,842,743	(201,892,379)
Depreciable assets, net	603,376,906	18,047,972	-	621,424,878
Total business-type activities capital assets, net	\$ 679,276,763	\$ 57,328,242	\$ (28,403,445)	\$ 708,201,560
Component Units activities				
Non-depreciable capital assets:				
Land and Construction in progress	\$ 55,795,522	\$ 37,588,589	\$ (31,669,857)	\$ 61,714,254
Depreciable assets:				
Buildings	\$ 145,059,370	\$ 13,896,616	\$ (57,289)	158,898,697
Improvements other than buildings	57,720,771	2,789,478	(5,287)	60,504,962
Building improvements	40,948,225	1,028,811	-	41,977,036
Equipment	38,537,618	2,954,488	(2,308,965)	39,183,141
Total depreciable assets	282,265,984	20,669,393	(2,371,541)	300,563,836
Less accumulated depreciation:				
Buildings and equipment	(145,977,111)	(20,483,281)	2,159,399	(164,300,993)
Depreciable assets, net	136,288,873	186,112	(212,142)	136,262,843
Total component unit activities capital assets, net	\$ 192,084,395	\$ 37,774,701	\$ (31,881,999)	\$ 197,977,097

.* As restated - See Note XXV.

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Depreciation expense was charged to governmental activities as follows:

General government activities	\$	6,545,049
Judicial administration		1,552,942
Public safety		5,102,742
Public works, which includes the depreciation of infrastructure assets		60,378,703
Health and sanitation		455,680
Culture and recreation		5,828,502
Community development		3,111,545
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets		281,755
Total depreciation expense	\$	<u>83,256,918</u>
Business-type activities		
Water Utility Fund	\$	10,796,178
Wastewater Fund		3,101,499
Parking Funds		3,784,987
Total depreciation expense	\$	<u>17,682,664</u>
Component unit activities		
Community Services Board	\$	105,213
NRHA		14,040,958
Schools		6,337,110
Total depreciation expense	\$	<u>20,483,281</u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2007:

	Interest Expense	Interest Revenue	Net Capitalized
Water Utility Fund	\$ 1,129,893	\$ (423,998)	\$ 705,895
Wastewater Utility Fund	1,912,355	-	1,912,355
	<u>\$ 3,042,248</u>	<u>\$ (423,998)</u>	<u>\$ 2,618,250</u>

VIII. Long-Term Obligations

A. General Obligation and Revenue Bonds

The City has traditionally issued general obligation or revenue bonds to provide funds for the construction and acquisition of major capital facilities. General obligation bonds have been issued for both governmental and business-type

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activities. In 1993 and 1997 the City established Water Revenue and Parking Revenue bond programs, respectively.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived from the respective acquired or constructed assets are pledged to pay debt service.

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2007 follows:

	General Obligation Bonds	Enterprise Funds		
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds
General obligation bonds outstanding at July 1, 2006	\$ 382,773,339 *	\$ 20,936,796	\$ 65,384,352	\$ 6,777,974
Bonds retired	(35,932,414)	(3,726,450)	(5,073,473)	(1,160,933)
Bonds refunded	(14,523,410)	-	(316,590)	-
Bonds issued	137,180,935	-	24,489,065	-
Bonds outstanding at June 30, 2007	469,498,450	17,210,346	84,483,354	5,617,041
Less: Unamortized (discount)/premium	15,283,714	1,281,718	(1,302,300)	461,495
General obligation bonds outstanding at June 30, 2007, adjusted for unamortized (discount)/premium	<u>\$ 484,782,164</u>	<u>\$ 18,492,064</u>	<u>\$ 83,181,054</u>	<u>\$ 6,078,536</u>
Revenue bonds outstanding at July 1, 2006		\$ 277,385,000	\$ -	\$ 96,774,000
Bonds retired		(7,310,000)	-	(2,015,000)
Bonds refunded		-	-	-
Bonds issued		-	-	-
Bonds outstanding at June 30, 2007		270,075,000	-	94,759,000
Less: Unamortized (discount)/premium		(3,899,329)	-	(5,093,230)
Revenue bonds outstanding at June 30, 2007, adjusted for unamortized (discount)/premium		<u>\$ 266,175,671</u>	<u>\$ -</u>	<u>\$ 89,665,770</u>

- * Includes a Section 108 loan with the Department of Housing and Urban Development (HUD) in the amount of \$13,000,000. Revenues from the Broad Creek Tax Increment Financing (TIF) District are the primary revenue pledge to support the bonds' debt device. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.

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General obligation and revenue bonds outstanding at June 30, 2007 are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental Activities				Balance Outstanding
				Public Improvement Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation	
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000				\$ 1,500,000
Series 1997 Capital Improvement	4/15/1997	43,975,000	5.25 - 5.375%	1,750,000		450,000		2,200,000
Series 1997 QRB	4/15/1997	4,000,000	5.25 - 5.75%	2,000,000				2,000,000
Series 1998 Capital Improvement	6/15/1998	44,330,000	4.25 - 5.00%	5,873,722		1,496,278		7,370,000
Series 1998 Refunding	6/15/1998	49,190,000	4.25 - 5.00%	22,897,880	\$ 7,703,784	2,281,621	\$ 2,556,715	35,440,000
Series 1998 QRB	9/15/1998	2,560,000	4.70 - 5.10%	1,555,000				1,555,000
Series 1999 Capital Improvement	7/1/1999	11,700,000	4.50 - 5.00%	1,755,000				1,755,000
Series 1999 QRB	7/1/1999	4,000,000	4.55 - 5.30%	2,600,000				2,600,000
Series 1999 QZAB	8/19/1999	7,000,000	none	2,692,304				2,692,304
Series 2000 Capital Improvement	7/15/2000	18,025,000	5.00 - 5.25%	3,600,000				3,600,000
Series 2000 QRB	7/15/2000	3,995,000	5.125 - 5.65%	2,795,000				2,795,000
Series 2000 QZAB	11/22/2000	3,637,170	none	1,958,476				1,958,476
Series 2001 QZAB	12/27/2001	1,062,830	none	552,124				552,124
Series 2002 Capital Improvement	2/1/2002	27,000,000	2.00 - 5.00%	11,200,230		949,770		12,150,000
Series 2002 QRB	2/1/2002	7,955,000	3.00 - 5.00%	5,955,000				5,955,000
Series 2002 Refunding	2/1/2002	47,200,000	2.00 - 5.00%	18,791,537	3,728,756	5,163,218	471,489	28,155,000
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.38%	3,400,000				3,400,000
Series 2002B Capital Improvement	11/1/2002	34,600,000	3.00 - 5.00%	20,760,000				20,760,000
Series 2002B Refunding	11/1/2002	39,890,000	5.00 - 5.25%	20,997,081	965,974	2,588,223	1,148,722	25,700,000
Series 2003 VRA	4/8/2003	10,000,000	3.50%			8,498,943		8,498,943
Series 2003 Capital Improvement	11/15/2003	57,110,000	2.00 - 5.00%	47,605,067		934,933		48,540,000
Series 2003 Refunding	11/15/2003	12,265,000	3.00 - 4.00%	5,527,500		502,500		6,030,000
Series 2004 Refunding	3/1/2004	96,395,000	2.00 - 5.00%	51,039,694	4,811,832	7,298,360	1,440,115	64,590,001
Series 2004 HUD	3/3/2004	13,000,000	4.32 - 6.01%	13,000,000				13,000,000
Series 2004 Property Acquisition	7/29/2004	1,775,000	5.38%	1,566,683				1,566,683
Series 2004 VRA	9/17/2004	11,100,000	3.10%			10,890,660		10,890,660
Series 2005 Capital Improvement	3/16/2005	59,320,000	2.50 - 5.00%	51,660,000		1,785,000		53,445,000
Series 2005 Refunding	3/16/2005	35,035,000	2.50 - 5.00%	29,285,217		5,654,783		34,940,000
Series 2005 VRA	3/14/2006	11,500,000	3.00%			11,500,000		11,500,000
Series 2006 VRA	9/28/2006	14,250,000	none			14,250,000		14,250,000
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	89,335,500		9,889,500		99,225,000
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	15,480,435		349,565		15,830,000
Series 2007 VRDB (AMT)	3/29/2007	32,365,000	cap 5.00%	32,365,000				32,365,000
Total General Obligation Bonds				\$ 469,498,450	\$ 17,210,346	\$ 84,483,354	\$ 5,617,041	\$ 576,809,191

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities		Balance Outstanding
			Water Utility	Parking Facilities	
Series 1993 Water Revenue	11/1/1993	2.80 - 5.375%	\$ 50,530,000	\$ -	\$ 50,530,000
Series 1995 Water Revenue	8/15/1995	5.00 - 7.00%	93,265,000	-	93,265,000
Series 1998 Water Revenue and Refunding	11/1/1998	4.00 - 5.125%	72,000,000	-	72,000,000
Series 1999 Parking System Revenue	2/15/1999	4.00 - 5.00%	-	14,220,000	14,220,000
Series 2001 Water Revenue and Refunding	10/15/2001	4.00 - 5.00%	31,865,000	-	31,865,000
Series 2000A Variable Rate Parking System Revenue	10/26/2000	Variable	-	1,680,000	1,680,000
Series 2000B Parking System Revenue and Refunding	10/1/2000	5.50 - 5.67%	-	15,155,000	15,155,000
Series 2003I Subordinate Parking System Revenue	7/11/2003	4.50%	-	904,000	904,000
Series 2003II Subordinate Parking System Revenue	7/11/2003	4.50%	-	245,000	245,000
Series 2004A Variable Rate Parking System Revenue	10/28/2004	Variable	-	6,510,000	6,510,000
Series 2004B Parking System Revenue	10/28/2004	2.50 - 5.00%	-	30,115,000	30,115,000
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	22,415,000	-	22,415,000
Series 2005 Parking System Revenue Refunding	6/15/2005	2.50 - 5.00%	-	25,930,000	25,930,000
Total Revenue Bonds			\$ 270,075,000	\$ 94,759,000	\$ 364,834,000

The Parking system's variable rate demand bonds are remarketed weekly and are generally anticipated to approximate the one-month London Interbank Offered Rate.

CITY OF NORFOLK, VIRGINIA
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The Series 2007 Capital improvement Cruise Terminal variable rate demand bonds are remarketed weekly and are generally anticipated to be 0.10% higher than the Securities Industry and Financial Market Association (SIFMA) Index.

B. General Obligation Bonds

A summary of the requirements to amortize general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 40,512,942	\$ 20,784,127	\$ 9,718,956	\$ 3,586,366
2009	40,523,564	18,984,714	10,802,050	3,393,393
2010	38,068,663	17,154,949	9,604,150	2,917,823
2011	37,749,141	15,621,868	9,657,666	2,539,837
2012	34,608,425	13,822,050	8,439,024	2,116,165
2013-2017	122,111,261	48,878,551	25,082,560	6,833,045
2018-2022	89,472,935	24,355,083	17,519,113	3,444,294
2023-2027	45,571,519	8,200,555	15,388,881	1,050,235
2028-2032	6,795,000	3,543,216	1,098,341	5,788
2033-2037	12,080,000	1,163,948	-	-
2038	2,005,000	12,800	-	-
Total	\$ 469,498,450	\$ 172,521,861	\$ 107,310,741	\$ 25,886,946

The detailed requirements to amortize general obligation bonds for the major proprietary funds are as follows:

Year Ending June 30,	<u>Water Utility Fund</u>		<u>Wastewater Utility Fund</u>		<u>Parking Facilities Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,912,746	\$ 783,218	\$ 4,624,412	\$ 2,545,294	\$ 1,181,797	\$ 257,854
2009	3,757,731	625,238	5,962,537	2,561,005	1,081,782	207,150
2010	2,812,578	437,701	5,775,615	2,326,934	1,015,957	153,188
2011	2,822,993	304,804	5,811,060	2,131,735	1,023,614	103,298
2012	2,058,267	163,900	5,697,873	1,900,474	682,885	51,791
2013-2017	1,846,031	129,406	22,605,522	6,660,210	631,006	43,429
2018-2022	-	-	17,519,113	3,444,294	-	-
2023-2027	-	-	15,388,881	1,050,235	-	-
2028-2032	-	-	1,098,341	5,788	-	-
2033-2038	-	-	-	-	-	-
Total	\$ 17,210,346	\$ 2,444,267	\$ 84,483,354	\$ 22,625,969	\$ 5,617,041	\$ 816,710

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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C. Revenue Bonds

The Water Revenue bond covenants require that each year's water utility fund net revenue not be less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service or (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund, the repair and replacement reserve fund and the rate stabilization fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

The Parking Revenue bond covenants require that each year's parking facilities fund net revenue not be less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Center Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted investments on the balance sheet because their use is limited by applicable bond covenants.

The detailed requirements to amortize water and parking revenue bonds are as follows:

Year Ending June 30,	<u>Water Revenue</u>		<u>Parking Revenue</u>	
	Principal	Interest	Principal	Interest
2008	\$ 7,665,000	\$ 14,022,200	\$ 2,125,000	\$ 4,596,101
2009	\$ 8,050,000	\$ 13,639,869	\$ 2,230,000	\$ 4,515,515
2010	\$ 8,455,000	\$ 13,232,930	\$ 2,560,000	\$ 4,427,652
2011	\$ 8,885,000	\$ 12,800,298	\$ 2,635,000	\$ 4,339,190
2012	\$ 9,355,000	\$ 12,336,246	\$ 2,755,000	\$ 4,210,941
2013-2017	\$ 54,815,000	\$ 53,617,615	\$ 15,019,000	\$ 19,009,150
2018-2022	\$ 71,595,000	\$ 36,823,926	\$ 18,775,000	\$ 15,241,712
2023-2027	\$ 70,925,000	\$ 15,808,114	\$ 23,985,000	\$ 10,156,905
2028-2032	\$ 25,240,000	\$ 3,596,238	\$ 21,560,000	\$ 3,769,391
2033-2037	\$ 5,090,000	\$ 484,700	\$ 3,115,000	\$ 284,191
Total	\$ 270,075,000	\$ 176,362,136	\$ 94,759,000	\$ 70,550,748

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

D. Other Notes and Loans

The General Fund assumed a note payable on behalf of the former National Maritime Center Authority and Holding Corporation of ILA Local 1248. The note will be paid according to the following schedule:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008 \$	12,614	\$ 12,150
2009	13,328	11,436
2010	14,080	10,684
2011	14,874	9,890
2012	15,713	9,051
2013-2017	92,909	30,910
2018-2020	63,068	5,033
Total \$	226,586	\$ 89,155

E. Advanced Refundings

Previously, the City of Norfolk defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the funds financial statements.

At June 30, the following defeased bonds from advance refunding are still outstanding:

<u>Defeased In</u>	<u>Original Issue</u>	<u>General Obligation Bonds</u>
2005	1998	\$ 20,630,000
2005	1999	4,680,000
2005	2000	6,300,000
2005	2002	4,050,000
2007	1999	1,170,000
2007	2000	2,700,000
2007	2002	4,050,000
2007	2002B	6,920,000
		<u>\$ 50,500,000</u>

CITY OF NORFOLK, VIRGINIA
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June 30, 2007

F. Capital Leases

The City leases certain buildings and certain computer, automotive, solid waste automation and other heavy equipment, which are recorded at a cost of \$8,296,539.

The remaining debt service requirements, including interest at rates varying from 4.37% to 7.26%, will be retired by funds from the General Fund on the aforementioned contracts, as follows:

Year Ending June 30,	Governmental Activities		Totals
	General Fund	Internal Service Funds	
2008	\$ 3,838,480	\$ 2,878	\$ 3,841,358
2009	2,737,843	2,878	2,740,721
2010	1,434,059	2,878	1,436,937
2011	646,861	2,397	649,258
2012	35,764	-	35,764
Thereafter	17,605	-	17,605
Total minimum lease payments	8,710,612	11,031	8,721,643
Less interest	(414,073)	(808)	(414,881)
	8,296,539	10,223	8,306,762
Less current portion	(3,838,480)	(2,878)	(3,841,358)
	<u>\$ 4,458,059</u>	<u>\$ 7,345</u>	<u>\$ 4,465,404</u>

G. Landfill Liability

The City closed its Campostella landfill site on June 30, 1992. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 30 years after closure. The \$1,321,138 reported as an obligation for landfill closure and post/closure costs, at June 30, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

The Campostella landfill statistically exceeded groundwater protection standards in May, 2002. Until a remedy for corrective action is chosen and approved, \$1,000,000 is included in the liability for groundwater corrective action.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

H. Compensated Absences

A liability for vested vacation and sick leave benefits is recorded as general long-term obligations. These benefits represent future obligations of the following funds and component units:

Primary Government:	
Governmental activities	
General	\$ 13,384,846
Nonmajor governmental and internal service funds	<u>1,170,065</u>
Total governmental	<u>\$ 14,554,911</u>
Enterprise Funds:	
Water utility fund	\$ 854,700
Wastewater utility fund	310,900
Parking fund	<u>255,199</u>
Total enterprise funds	<u>\$ 1,420,799</u>
Component Unit - School Board	<u>\$ 9,214,759</u>
Component Unit - NRHA	<u>\$ 1,683,657</u>
Component Unit - CSB	<u>\$ 1,009,242</u>

I. Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, the City's debt limit is \$1,549,620,780 of which \$970,396,589 is available for creation of additional debt. There are no overlapping tax jurisdictions.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

J. Bonds Authorized and Unissued

A summary of bonds authorized and unissued as of June 30, 2007 are as follows:

<u>Projects</u>	<u>Total</u>
General Obligation Bonds Authorized and Unissued:	
Capital Fund Projects	
General Capital Improvement Projects	\$ 134,696,958
Maritime Center Capital Improvement Projects	-
Towing and Recovery Capital Improvement Projects	-
Storm Water Capital Improvement	7,543,969
Capital Fund Projects Total	<u>142,240,927</u>
Parking Facilities Fund Projects	-
Wastewater Utility Fund Projects	9,373,272
G.O. Bonds Authorized and Unissued	<u><u>151,614,199</u></u>
Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	32,475,000
Parking Facilities Fund Projects	27,409,000
Revenue Bonds Authorized and Unissued	<u>59,884,000</u>
Total Bonds Authorized and Unissued:	<u><u>\$ 211,498,199</u></u>

K. Changes in Long-Term Obligations

A summary of fiscal year 2007 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General obligation debt	\$ 397,305,885	\$ 139,251,372	\$ 51,775,093	\$ 484,782,164	\$ 37,353,412
Notes	238,529	-	11,943	226,586	12,614
Capital leases	12,203,656	-	3,907,117	8,296,539	3,615,596
Total Bonds and Notes Payable	<u>\$ 409,748,070</u>	<u>\$ 139,251,372</u>	<u>\$ 55,694,153</u>	<u>\$ 493,305,289</u>	<u>\$ 40,981,622</u>
Other Liabilities:					
Vested Compensated absences	\$ 14,679,456	\$ 11,856,908	\$ 12,300,614	\$ 14,235,750	\$ 12,300,000
Retirement System Contribution	22,979,764	22,307,851	22,979,764	22,307,851	22,307,851
Retiree's life insurance	680,000	-	60,000	620,000	65,000
Workers' compensation claims	18,956,459	3,196,893	-	22,153,352	4,030,648
Automobile and general liability claims	965,899	1,947,409	-	2,913,308	362,124
Landfill closure and post-closure costs	1,419,844	-	98,706	1,321,138	100,000
Total Other Liabilities	<u>\$ 59,681,422</u>	<u>\$ 39,309,061</u>	<u>\$ 35,439,084</u>	<u>\$ 63,551,399</u>	<u>\$ 39,165,623</u>
Governmental Activities					
Long-Term Liabilities	\$ 469,429,492	\$ 178,560,433	\$ 91,133,237	\$ 556,856,688	\$ 80,147,245
Internal Service Funds					
Capital leases	\$ 12,646	\$ -	\$ 2,433	\$ 10,213	\$ 2,520
Retirement System Contribution	388,628	404,285	388,628	404,285	404,285
Vested Compensated absences	295,068	319,161	295,068	319,161	295,000
Total Internal Service Funds	<u>\$ 696,342</u>	<u>\$ 723,446</u>	<u>\$ 686,129</u>	<u>\$ 733,659</u>	<u>\$ 701,805</u>
Total Governmental	<u><u>\$ 470,125,834</u></u>	<u><u>\$ 179,283,879</u></u>	<u><u>\$ 91,819,366</u></u>	<u><u>\$ 557,590,347</u></u>	<u><u>\$ 80,849,050</u></u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
Bonds and Notes Payable:					
Water	\$ 295,714,260	\$ -	\$ 11,046,525	\$ 284,667,735	\$ 11,577,746
Wastewater	63,630,930	24,489,065	4,938,941	83,181,054	4,624,412
Parking facilities	98,060,685	859,554	3,175,933	95,744,306	3,306,797
Total Bonds and Notes Payable	<u>\$ 457,405,875</u>	<u>\$ 25,348,619</u>	<u>\$ 19,161,399</u>	<u>\$ 463,593,095</u>	<u>\$ 19,508,955</u>
Vested Compensated Absences	\$ 1,369,743	\$ 1,420,799	\$ 1,369,743	\$ 1,420,799	\$ 884,746
Retirement Obligation	2,359,263	2,423,808	2,359,263	2,423,808	2,423,808
Claims and judgements	853,000	-	853,000	-	-
Business-Type Activities					
Long-Term Liabilities	<u><u>\$ 461,987,881</u></u>	<u><u>\$ 29,193,226</u></u>	<u><u>\$ 23,743,405</u></u>	<u><u>\$ 467,437,702</u></u>	<u><u>\$ 22,817,509</u></u>

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
COMPONENT UNIT ACTIVITIES:					
Bonds and Notes Payable:					
NRHA	\$ 76,616,812	\$ 1,431,735	\$ 8,184,369	\$ 69,864,178	\$ 12,218,666
Total Bonds and Notes Payable	\$ 88,085,404	\$ 1,431,735	\$ 8,184,369	\$ 69,864,178	\$ 12,218,666
Other Liabilities:					
Vested Compensated Absences					
Community Services Board	\$ 846,528	\$ 1,009,242	\$ 846,528	\$ 1,009,242	\$ 689,557
NRHA	1,717,101	-	33,444	1,683,657	192,580
Norfolk Public Schools	6,144,563	5,619,532	2,549,336	9,214,759	603,259
Pension Liability:					
Community Services Board	874,932	905,722	874,932	905,722	905,722
Workers' Compensation Claims					
Norfolk Public Schools	1,410,508	681,369	479,292	1,612,585	355,528
Claims Liability					
Norfolk Public Schools	100,000	94,911	94,911	100,000	50,000
Component Unit-type activities					
long-term liabilities	\$ 99,179,036	\$ 9,742,511	\$ 13,062,812	\$ 84,390,143	\$ 15,015,312

IX. Other Liabilities

In 2006, a current liability of \$853,000 was recorded in the Water Utilities Fund to reflect over-recovery of revenue from a wholesale customer during fiscal year 2006 under the water contract. In 2007 an additional liability of \$1,067,000 was recorded for this same wholesale customer. Pursuant to the terms of the water services contract, billings to the customer were based on budgeted Water Utility Fund capital and operating expenditures during the fiscal years. The liability reflects the adjustments to billings based on the difference between budgeted expenditures and actual cost of service for that customer (capital and operating). In accordance with the water services contract, this liability is planned to be reduced in fiscal year 2009 through credits to the customer billings. At June 30, 2007, the liability remained at \$1,920,000 for this customer.

X. Pension Plans

The City and its component units participate in three defined benefit pension retirement plans. These include the Employees' Retirement System (ERS) of the City of Norfolk (XI.A); Virginia Retirement System (VRS) a plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (XI.B); and a VRS plan for the benefit of state employees in constitutional offices. In addition, the School Board has a defined contribution plan.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

A. Employees' Retirement System of the City of Norfolk (System):

Plan Description

The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer noncontributory, defined benefit plan that covers substantially all employees of the City, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service. Cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia as amended. The ERS is included as a Pension Trust Fund in the City's financial statements and also issues a separate publicly available financial report that includes financial statements and required supplementary information for the ERS. That report may be obtained by writing to Employees' Retirement System of the City of Norfolk, City Hall Building, 810 Union Street, Suite 309, Norfolk, VA 23510.

Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of \$25,135,944 for the year ended June 30, 2007 was based on 11.59 percent of covered payroll for general employees and 22.40 percent of covered payroll for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the pension fund and will be made in fiscal year 2008.

Annual Pension Cost

For 2007, the System's annual pension cost was equal to the City's required and actual (to be made in 2008) contribution. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the projected unit credit cost method. The amortization method used is level dollar closed. Significant actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses), (b) projected average salary increases of 5.46% and (c) assumed inflation rate of 3.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2007 was 20 years.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 25,135,944	100%	\$ -
June 30, 2006	\$ 25,728,228	100%	\$ -
June 30, 2005	\$ 23,652,756	100%	\$ -

B. School Board – Retirement Plans

Plan Description – Virginia Retirement System (VRS)

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at 50 with 30 years of service payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provision to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2005AnnuRept.pdf> or obtained by writing VRS at P. O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Title 51.1 of the Code of Virginia (1950) require plan members, as amended, to contribute 5% of their annual reported compensation to the VRS. The School Board has assumed the 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's professional and nonprofessional employees' contribution rates for the fiscal year ended June 30, 2007 were 10.82%

CITY OF NORFOLK, VIRGINIA
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June 30, 2007

and 9.75% of annual covered payroll, respectively. The School Board division's contributions to the VRS for the years ended June 30, 2007, 2006, and 2005 were \$32,978,467, \$24,355,694 and \$23,809,236, respectively, equal to the required contributions for each year.

Annual Pension Cost – Agent Plan

For 2007, the School Board's annual pension costs of \$2,220,834 for nonprofessional employees were equal to the School Board's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases of 3.75% to 5.60% for Non-LEO and 3.5% to 4.75% for LEO employees per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The amortization method is open and the remaining amortization period is 20 years.

Trend information for the School Board's agent multiple-employer is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 2,220,834	100%	\$ -
June 30, 2006	1,603,078	100%	\$ -
June 30, 2005	1,467,147	100%	\$ -

School Board – Superintendent Defined Contribution Plan

The School Board adopted a separate retirement plan for the Norfolk Superintendent of Schools in which the Superintendent could elect out of the defined benefit plan administered by VRS and opt into an Optional Retirement Plan for School Superintendents (ORPSS) under Virginia Code Section 51.1-126.6, also administered by VRS. The ORPSS is a defined contribution plan.

For any plan year commencing after June 30, 2007 that the participant remains an eligible employee, the School Board will set the amount for the plan contribution on behalf of the participant using the percentage of gross annual salary authorized under Virginia Statue. The current percentage is 10.4%. For the plan year, The School Board, in its discretion may contribute to another qualified or non-qualified plan an

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additional amount not to exceed the difference between the amount contributed to the ORPSS and \$25,000.

The Virginia Retirement System is the administrator of the plan and Great West Retirement is the trustee. Contributions for the year ended June 30, 2007 were fixed contributions of \$20,550.

School Board – Post Employment Benefits

In addition to the pension benefits described, the School Board provides post-retirement health care benefits, in accordance with adopted statutes, to all employees who retire from the School Division. This benefit is payable until the retiree reaches age 65. At June 30, 2007, 870 retirees met the eligibility requirements and have elected to receive this benefit. The School Board has agreed to pay for each retiree who has elected to continue health care coverage the sum of \$75 per month towards the cost of their health care benefit. The School Board pays the health care benefits over a ten-month period (September to June). Expenditures for post-retirement health care benefits are recognized on a monthly basis through the School Board's financial records. An average of 870 retirees received post employment benefits that totaled \$782,969 for the current fiscal year.

C. State Employees – Virginia Retirement System (VRS):

Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and

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disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the year ended June 30, 2006 was 4.72% of annual covered payroll. Contributions to the VRS for the year ended June 30, 2007 were \$2,305,090 equal to the required contribution.

Annual Pension Cost

For 2007, the City's annual pension cost of \$2,305,090 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 7.5% investment rate of return; (b) projected salary increases that range between 3.75% to 5.60% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 20 years.

Trend information for the City VRS plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 2,035,090	100%	\$ -
June 30, 2006	\$ 1,811,851	100%	\$ -
June 30, 2005	\$ 1,771,496	100%	\$ -

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XI. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25 percent of gross income up to a maximum of \$15,000 per year. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The laws governing the City's deferred compensation plan have been complied with pursuant to the provisions of IRC Section 457. Accordingly, all assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

XII. Other Post-employment Benefits

The City provides postretirement health care benefits, in accordance with state statutes which require the City to extend access to healthcare benefits to certain retirees. To qualify, retiree's must have 15 years of continuous service or retire on accidental disability. The City pays \$25 per month per participating retiree who agrees to pay the remaining premium. The City's regular health care provider underwrites the retiree's policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year-end, there were 635 employees who had retired and are participating in the plan. The City finances the plan on a pay as you go basis. For the year ended June 30, 2007, the City paid \$190,405 for these benefits, which was net of \$3,260,590 in retiree contributions.

XIII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2007 is as follows:
Due to/from other funds:

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<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 4,078
	Water Utility	2,151,575
	Wastewater	108,303
	Parking Fund	26,521
	Cemetery Fund	10,657
	Nauticus	400,203
	Grants	23,171
	Stormwater	21,391
	Towing	2,172
	Fleet Management	53,220
	Storehouse	94,717
	Emergency Operation Center - 911	24,279
	Maritime Facility	380
	Community Development	1,457
	General Fund	1,156,850
	Total General	<u>\$ 4,078,974</u>
Capital Projects	Water Utility Fund	\$ 12,099,017
	Wastewater Fund	\$ 10,096,395
	Fleet Management	57,874
	Total Capital Projects	<u>\$ 22,253,286</u>
Nonmajor Governmental Funds	General Fund	\$ 84,552
	Nauticus	1,125
	Capital Projects	34,883
	Cemeteries	1,245
	Water Utility Fund	13,801
	Total Nonmajor governmental	<u>\$ 135,606</u>
Enterprise Funds	General Fund	\$ 421,666
	Capital Projects	412,899
	Total Enterprise	<u>\$ 834,565</u>
	Grand Total	<u>\$ 27,302,431</u>

The outstanding balances between funds result mainly from the time lag between the dates (1) interfund good and services are provided or reimbursement occurs, (2) transaction are recorded in the accounting system, and (3) payment between funds are made.

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XIV. Interfund Transfers

The following interfund transfers occurred during fiscal year 2007:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 11,824,628	\$ 72,641,665
Debt Service	54,050,498	-
Capital projects fund	6,351,189	679,773
Nonmajor governmental funds	17,027,448	4,854,205
Internal Service Funds:		
Fleet Management	-	90,000
Enterprise:		
Water Utility	-	8,921,465
Wastewater Utility	-	1,750,500
Parking	-	316,155
	<u>\$ 89,253,763</u>	<u>\$ 89,253,763</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$11,824,628 include \$461,027 from the capital projects fund, \$1,363,601 from the grants fund; \$1,500,000 from the wastewater fund and \$8,500,000 from the water utility fund represents a return on investment back to the general fund.

The general fund transfers out of \$72,641,665 represents a transfer of \$52,123,398 to the debt service fund to fund general obligation debt and capital lease payments; \$4,300,000 to the capital projects fund as a contribution for annual capital improvement plan budget; \$12,795,358 to the grants fund in support of grant projects; \$1,746,000 to the nauticus fund, \$588,881 to the cemeteries fund, \$1,043,450 to EO/911 fund, and \$40,000 to the maritime facility fund and \$4,578 to the golf fund..

Debt service transfers include \$1,676,797 from storm water fund, \$225,429 from the maritime center fund, \$24,874 from the maritime facility fund and \$52,123,398 from the general fund to fund the current year's debt service payments.

The storm water special revenue fund transferred \$1,676,797 to the debt service fund to cover its debt service cost and \$27,924 to the capital projects fund in support of related capital projects.

The public amenities special revenue type fund transferred \$1,225,000 to the capital projects fund in support of the fund's capital related projects.

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The water and wastewater funds transferred \$8,500,000 and \$1,500,000 to the general fund as a return on investment, respectively.

The parking fund transferred \$189,855 to the maritime facility fund to cover parking cost of cruise customers.

The general fund also transferred \$97,594,910 to the School Board component unit, and \$3,501,000 to the Community Service Board component unit during the fiscal year. These amounts are reported as expenses in the primary government's financial statements, and revenues in the component unit financial statements.

XV. Recovered Costs

Recovered costs in the General Fund consist of the following:

Public Health Center	\$	1,363,990
Information Systems Recoveries		1,538,467
Retirement Bureau		453,324
Debt Service Recoveries		232,400
Administrative Costs Recoveries from Enterprise Funds		2,993,430
Other		<u>1,755,786</u>
Total	\$	<u>8,337,397</u>

Recovered cost in the Nonmajor Funds consist of the following:

Public Works	\$	40,284
Public Health and Welfare		24,918
Parks, Recreation and Cultural		<u>4,259</u>
Total	\$	<u>70,461</u>
Grandtotal	\$	<u>8,407,858</u>

XVI. Other Liabilities

Other liabilities, as presented in the *Fund Financial Statements*, consist of the following:

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Governmental Funds:

General Fund - Miscellaneous	\$ 1,112,754
General Fund - Accrued expenditures	2,479,876
Special Revenue Fund - Miscellaneous	163,230
	<u>\$ 3,755,860</u>

Enterprise Funds:

Water Utility Fund - Miscellaneous	2,446,613
Wastewater Utility Fund - Miscellaneous	371,077
	<u>\$ 2,817,690</u>

Fiduciary Funds:

Other Agency Funds	\$ 4,820,726
Commonwealth of Virginia	-
	<u>\$ 4,820,726</u>

XVII. Supplemental Appropriations

The following supplemental appropriations were made to the general fund operating budgets during the fiscal year:

General Fund:

Approved FY 2006-2007 budget	<u>\$ 766,689,400</u>
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Supplemental appropriations from additional revenue:

Reimbursement from Commonwealth of Virginia for street maintenance projects.	336,132
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Supplemental appropriations from general fund fund balance:

Additional funds appropriated from fund balance for various programs	7,004,292
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Additional funds appropriated to cover costs associated with capital improvement increases.	<u>1,000,000</u>
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Total supplemental appropriations	<u>8,340,424</u>
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Final budget	<u>\$ 775,029,824</u>
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XVIII. Deferred Revenue

Deferred revenue, as represented in the Fund Financial Statements at June 30, totals \$31,557,985 and is comprised of the following:

A. Deferred grant funding

In the Grants Fund, deferred revenue represents monies accepted from a grantor using an advancement method for payments. The amount is reduced and

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revenue is recorded when expenditures are incurred in accordance with the grantors' requirements. If expenditures are not incurred, the funds will revert back to the grantors. In the Community Development Fund, the deferred revenue represents deferred payment rehabilitation loans of \$628,155 as of June 30, 2007.

B. Deferred property tax revenue

Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures as of June 30, 2007 is \$30,680,048.

C. Notes receivable

Deferred revenue in the General Fund, representing noncurrent notes receivable not available for funding current expenditures at June 30, 2007, totals \$70,039.

D. Other receivable

Deferred revenue in the Stormwater (Special Revenue Fund), representing deferred billing that have been earned but are not available for funding current expenditures at June 30, 2007, totals \$179,743.

XIX. Commitments and Contingencies

A. Capital Projects

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, are as follows:

Water utility development projects	\$ 14,413,952
Wastewater utility development projects	15,955,452
Parking facilities development projects	<u>2,410,653</u>
	<u>\$ 32,780,057</u>

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be

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disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Litigation

From time to time the Fund and the City are defendants in a number of lawsuits. Although it is not possible to determine the final outcome on these matters, management and the City attorney are of the opinion that the liability will not be material and will not have a significant effect on the Fund's financial condition.

During fiscal year 2006, the Fund and the wholesale customer became involved in a dispute over the amount of usage by the customer and related water billing going back to 2002. The Fund has recorded amounts it believes is consistent with the requisite water contracts with this customer (see Note IX).

XX. Surety Bonds and Insurance

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	\$ 3,000
	Thomas W. Moss, Jr., City Treasurer	1,500,000
	Robert J. McCabe, Sheriff	30,000
	George E. Schaefer., Clerk of the Circuit Court	<u>2,235,000</u>
	Total Commonwealth of Virginia	<u>\$3,768,000</u>
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff , Commissioner of the Revenue, Commonwealth Attorney and Clerk of Court	
	Performance of Duty Bond	\$ 500,000
City of Norfolk		
Travelers Insurance Co.	All City employees	\$10,000,000

XXI. Self and Purchased Insurance Programs

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2007 was \$7,466,244.

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The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, these liabilities were \$25,066,660, of which \$5,222,145 represents the current portion anticipated to be paid within a year. Estimated liabilities, as determined by an actuary, are reported at their present value, using the expected future investment yield assumption of five percent.

Changes in the City's claims liability amount in the fiscal years 2003 through 2007 are as follows:

	Unpaid Claims Beginning Fiscal-year	Incurred Claims and Changes in Estimates	Claims Payments	Unpaid Claims End of Fiscal-year
2003	\$16,581,654	\$ 6,382,569	\$(4,774,287)	\$18,189,936
2004	18,189,936	6,188,209	(7,357,365)	17,020,780
2005	17,020,780	5,464,863	(5,544,508)	16,941,135
2006	16,941,135	8,248,731	(5,267,508)	19,922,358
2007	19,922,358	10,659,920	(5,515,618)	25,066,660

The City in its General Fund has designated \$5,740,162 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in the program and its projected present value assuming a discount rate of five percent liability at June 30, 2007 was \$1,712,585. It also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

XXII. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority (HRRJA)

HRRJA is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of

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Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in the Authority, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2007. Complete financial statements of HRRJA can be obtained from HRRJA.

B. Hampton Roads Planning District Commission (the Commission)

A regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the Cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the Counties of Gloucester, Isle of Wight, James City, Southampton and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs.

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2007. Complete financial statements of the Commission can be obtained from the Commission.

C. Tidewater Transportation District Commission (TTDC)

A political subdivision of the Commonwealth of Virginia formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia. TTDC provides public transportation facilities and services within the Cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TTDC rests with professional management.

The participating governments do not have an equity interest in TTDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2007. Complete financial statements of TTDC can be obtained from TTDC.

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XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

SPSA is a joint venture of the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors with each representative having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in SPSA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2007. Complete financial statements of the SPSA can be obtained from SPSA.

XXIV. Related Organizations

A. Norfolk Airport Authority

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of

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Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

B. The Economic Development Authority of the City of Norfolk (The Authority)

The Economic Development Authority, a political subdivision of the Commonwealth of Virginia, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Economic Development and Revenue Bond Act of the Commonwealth of Virginia (Title 15.1, Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City and further the use of the Commonwealth's agricultural and natural resources. The Authority is empowered by the Commonwealth to authorize industrial development bonds and confer tax-exempt status on interest paid to financial institutions. The Authority acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the Commission designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to borrowers.

C. The Chrysler Museum, Inc. (the Museum)

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum at Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

D. The Hospital Authority of Norfolk (HAN)

The Hospital Authority of Norfolk, which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1998. HAN operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

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XXV. Adjustments to Beginning Capital Assets and Net Assets

The City's beginning capital assets and net assets in the Water and Wastewater Utility Funds have been restated to adjust historical cost and accumulated depreciation on the City's capital assets. The City did not properly reclassify construction in progress ("CIP") assets to capitalized assets when projects were completed and the assets were placed into service, or expense those costs associated with previously capitalized CIP for projects that were subsequently abandoned.

Restatement of the City's Water and Wastewater Utility Funds are as follows:

	Primary Government - Business Type Activities	
	Water	Wastewater
Net Assets, June 30, 2006, As Previously Reported	\$ 172,605,662	\$ 76,949,701
Adjustments	(1,603,467)	(8,917,661)
Net Assets, June 30, 2006, As Restated	<u>\$ 171,002,195</u>	<u>\$ 68,032,040</u>

XXVI. Subsequent Events

Wastewater System Revenue Bond, Series 2007

On November 9, 2007, the City issued \$17,000,000 in Wastewater System Revenue Bonds, utilizing a federally subsidized interest rate loan program administered by the Virginia Resource Authority Loan (VRA). The bonds were sold at a true interest cost of 0.00%.

XXVII. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2007 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statement of the City.

- GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. This statement establishes standards for the measurement, recognition and display of expenses/expenditures and related liabilities (assets), not disclosures and if applicable, required supplementary information in the financial reports of state and local government employers on the post employment benefits ("OPEB").

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- GASB Statement 47, Accounting for Termination Benefits. This statement requires financial statement prepared on the accrual basis of accounting to recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the entity to the plan, the plan has been communicated to employees, and the amount can be estimated. The Fund is required to adopt portions this statement for the termination of benefits proved through an existing defined benefit OPEB plan that same time it adopts GASB Statement 45 mentioned above.
- GASB Statement 48, Sales and Pledges of Receivables and Future Revenue and Intra-Entity Transfers of Assets and Future Revenues. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

This statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated with the same financial reporting entity should continue to be reported at their current carry value when those assets (or future revenues) are transferred.

This statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivable or future revenues, including residual interest and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The requirements of this Statement are effective for financial statement for periods beginning after December 15, 2006.

- GASB Statement 49, Accounting and Financial Reporting or Pollution Remediation Obligations, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the

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- standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:
 - Pollution poses an imminent danger to the public or environment and the government has little or no discretion to avoid fixing the problem.
 - A government has violated a pollution prevention-related permit or license.
 - A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up.
 - A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution.
 - A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes of the financial statements. State 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that the beginning net assets can be restated.

- GASB issued Statement 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. GASB 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances the information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. GASB 50 conforms note disclosure and RSI requirements with the requirements of GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 50 is effective for periods beginning after June 15, 2007.
- GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. GASB 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Additionally, GASB 51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

- GASB 51 is effective for periods beginning after June 15, 2009 and generally requires its provisions to be applied retroactively.

**REQUIRED SUPPLEMENTARY
INFORMATION
(*OTHER THAN MANAGEMENT'S
DISCUSSION & ANALYSIS*)**



CITY OF NORFOLK, VA
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Retirement Plans - (unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
CITY - EMPLOYEES RETIREMENT SYSTEM						
June 30, 2004	\$ 761,500,000	\$ 845,700,000	\$ 84,200,000	90.0%	\$ 157,700,000	53.4%
June 30, 2005	\$ 854,100,000	\$ 883,900,000	\$ 29,800,000	96.6%	\$ 160,200,000	18.6%
June 30, 2006	\$ 881,000,000	\$ 939,100,000	\$ 58,100,000	93.8%	\$ 159,300,000	36.5%
June 30, 2007	\$ 925,800,000	\$ 972,200,000	\$ 46,400,000	95.2%	\$ 168,100,000	27.6%
CITY - VRS EMPLOYEES						
June 30, 2003	\$ 28,802,620	\$ 23,822,673	\$ (4,979,947)	120.9%	\$ 20,546,354	-24.2%
June 30, 2004	\$ 30,349,720	\$ 26,612,472	\$ (3,737,248)	114.0%	\$ 21,369,062	-17.5%
June 30, 2005	\$ 32,467,638	\$ 32,346,396	\$ (121,242)	100.4%	\$ 22,898,124	-0.5%
June 30, 2006	\$ 35,756,786	\$ 35,731,314	\$ (25,472)	100.1%	\$ 23,344,075	-0.1%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
June 30, 2004	\$ 53,170,951	\$ 51,919,382	\$ (1,251,569)	102.4%	\$ 13,052,011	-9.6%
June 30, 2005	\$ 52,765,749	\$ 54,345,074	\$ 1,579,325	97.1%	\$ 13,647,900	11.6%
June 30, 2006	\$ 52,906,114	\$ 61,150,786	\$ 8,244,672	86.5%	\$ 14,211,173	58.0%
June 30, 2007	\$ 55,282,776	\$ 60,006,661	\$ 4,723,885	92.1%	\$ 14,246,198	33.2%

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

Schedule of Revenue, Budget and Actual (Unaudited)

General Fund

For the Year Ended June 30, 2007

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General Property Taxes	\$ 226,655,500	\$ 226,655,500	\$ 233,112,175	\$ 6,456,675
Other Local Taxes	148,098,800	148,098,800	149,792,683	1,693,883
Permits, Privilege Fees, Licenses	3,907,400	3,907,400	4,071,084	163,684
Fines and Forfeitures	1,327,000	1,327,000	1,568,816	241,816
Revenue from Use of Money and Property	8,279,000	8,279,000	9,380,811	1,101,811
Charges for Services	21,737,100	21,737,100	21,451,990	(285,110)
Miscellaneous Revenue	3,994,400	3,994,400	7,016,741	3,022,341
Recovered Costs	9,043,200	9,043,200	9,228,828	185,628
Non-Categorical Aid - Virginia	34,571,700	34,571,700	34,650,987	79,287
Shared Expense - Virginia	19,518,500	19,518,500	20,468,998	950,498
Categorical Aid - Virginia	266,337,600	266,673,732	267,687,014	1,013,282
Categorical Aid - Federal	8,843,200	8,843,200	7,447,914	(1,395,286)
Interfund Transfers	14,376,000	22,380,292	21,089,292	(1,291,000)
Total Revenue Budget	<u>\$ 766,689,400</u>	<u>\$ 775,029,824</u>	<u>\$ 786,967,333</u>	<u>\$ 11,937,509</u>

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

Schedule of Expenditures, Budget and Actual (Unaudited)

General Fund

For the Year Ended June 30, 2007

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	\$ 4,003,000	\$ 4,237,340	\$ 4,216,825	\$ 20,515
Executive	1,951,300	1,757,839	1,733,298	24,541
Department of Law	3,650,900	3,698,802	3,672,177	26,625
Finance	24,038,700	29,207,282	29,366,343	(159,061)
Department of Human Resources	3,679,900	3,795,284	3,784,024	11,260
Courts, Sheriff and Detention	42,785,600	44,436,357	44,350,885	85,472
Department of Public Health	5,562,000	5,586,998	5,487,750	99,248
Department of Human Services	62,006,600	61,099,322	60,263,007	836,315
Department of Public Works	36,976,600	40,682,555	40,679,685	2,870
Neighborhood & Leisure Services	20,080,400	19,454,664	19,473,613	(18,949)
Education	308,714,200	309,714,200	309,718,700	(4,500)
Norfolk Public Libraries	7,705,200	7,765,255	7,714,428	50,827
Elections	572,800	577,247	518,612	58,635
Department of Planning	4,712,500	4,321,751	4,221,858	99,893
Department of Civic Facilities	6,427,600	6,598,486	6,787,524	(189,038)
Departmental Support	24,290,200	19,372,997	20,926,019	(1,553,022)
Outside Agencies	32,729,500	31,620,722	30,529,286	1,091,436
Department of Police	57,125,200	58,851,087	58,701,032	150,055
Department of Fire and Rescue Services	35,252,800	36,861,462	37,231,191	(369,729)
Public Safety Support	467,700	473,056	471,939	1,117
Debt Service	65,562,200	66,113,200	66,151,255	(38,055)
Budget and Management	833,900	844,723	817,635	27,088
Economic Development	2,408,200	2,411,579	2,292,426	119,153
Intergovernmental Programs	571,800	574,738	525,333	49,405
Communications and Public Relations	1,457,400	1,739,627	1,737,235	2,392
Department of Information Technology	9,179,400	9,257,634	9,261,230	(3,596)
Office of Grants Management	226,200	227,900	218,171	9,729
Virginia Zoological Park	3,525,600	3,555,219	3,493,671	61,548
Office of Homelessness	192,000	192,498	175,419	17,079
Total General Fund Expenditure Budget	<u>\$ 766,689,400</u>	<u>\$ 775,029,824</u>	<u>\$ 774,520,571</u>	<u>\$ 509,253</u>

CITY OF NORFOLK, VIRGINIA
Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2007

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from the Budget to Actual Comparison Statement	\$ 786,967,333
Differences--budget to GAAP:	
The effects of accounting for School Revenue as a Component Unit	(212,192,266)
The effects of accounting for revenue on a modified accrual basis	(11,089,292)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(11,824,628)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 551,861,147</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from the Budget to Actual Comparison Statement	\$ 774,520,571
Differences--budget to GAAP:	
The effects of accounting for School Revenue as a Component Unit	(212,123,790)
The effects of accounting for the Risk Management Reserve	(1,000,000)
The effects of accounting for the FY-07 5% Budget Reserve	(1,112,896)
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(2,201,199)
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(72,641,665)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	<u>\$ 485,441,021</u>

There were no material violations of the annual appropriated budget for the General Fund for the fiscal year ended June 30, 2007. In addition, there were no excesses of budgetary for the period for the General Fund.

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OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

**~ Nonmajor Governmental Funds ~
~ Agency Funds ~
~ Internal Service Funds ~**

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Note to Schedule of Expenditures of Federal Awards ~

**~ Schedule of Revenues and Expenditures – Budget and
Actual – Special Revenue Funds ~**

**Schedule of Revenues and Expenditures – Budget and
Actual – Internal Service Funds ~**

**Schedule of Revenues and Expenditures – Budget and
Actual – Capital Projects Fund ~**



Nonmajor Governmental Funds

Special Revenue Funds

The Special Revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The individual special revenue funds are:

Storm Water Fund: To account for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The costs of providing services on a continuing basis are partially financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Grants Fund: To account for the receipt and disbursement of revenue from such sources as federal and state agencies, adjacent municipalities, and City matching funds and to finance special programs that may have reporting periods that do not correspond with the City's fiscal year.

Community Development Fund: To account for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

National Maritime Center (Nauticus) Fund: To account for the operation of the National Maritime Center and Battleship Wisconsin tours.

National Maritime Facilities Fund: To account for the operation of the National Maritime Facilities and Cruise Terminal.

Expendable Trust and Agency Fund: To account for monies held by the City of Norfolk as a trustee. The resources of this fund are received and subsequently expended in such functions as public works, parks and recreation and libraries.

Cemeteries Fund: To account for the operation of the City of Norfolk cemeteries.

Emergency Operations Center/911 Fund: To account for the operation of the City of Norfolk emergency operations center/911.

Golf Fund: To account for the operation of the City of Norfolk's golf courses.

Land Acquisition Fund: To provide resources to assemble land that is in the public interest.

Public Amenities Fund: To promote cultural and entertainment activity in the downtown area.



Nonmajor Governmental Funds (Con't)

Tax Increment Financing Fund: To account for debt service requirements for the Section 108 Loan and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

Towing & Recovery Operations Fund: To improve neighborhood livability by providing reliable dispatching of towing services, storage of vehicles and recovery or disposal of vehicles.

Permanent Fund

The Permanent funds are used to report resources that are legally restricted to the extent that only earning, not principal, may be used for purposes that support the reporting government's programs. The City's permanent fund (non-expendable trust) is used to account for the perpetual care and endowed care at certain City-owned cemeteries.



CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility	Cemetery
ASSETS							
Cash and cash equivalents	\$ 1,733,121	\$ 780,759	\$ 15,402,288	\$ 227,374	\$ 280,083	\$ 714,780	\$ 301,099
Investments	-	-	-	-	-	-	-
Receivables, net	1,133,839	11,712	364,278	661,087	125,585	135,153	118,507
Deposits contractors	-	-	3,084	-	-	-	-
Due from other funds	48,684	75,000	-	-	1,245	1,125	-
Due from component unit	-	-	-	-	-	-	-
Receivable from other governments	-	-	1,641,970	-	-	-	-
Total assets	<u>\$ 2,915,644</u>	<u>\$ 867,471</u>	<u>\$ 17,411,620</u>	<u>\$ 888,461</u>	<u>\$ 406,913</u>	<u>\$ 851,058</u>	<u>\$ 419,606</u>
LIABILITIES							
Vouchers/Accounts payable	\$ 133,608	\$ 275	\$ 963,229	\$ 2,001	\$ 30,244	\$ 27,937	\$ 50,521
Contract retainage	-	-	182,632	3,349	-	-	-
Accrued payroll	54,069	7,449	71,740	5,165	41,071	3,032	-
Accrued expenses	-	-	-	-	-	-	-
Due to other funds	21,391	2,172	23,171	35,628	401,328	380	11,902
Due to other governments	-	-	-	214,163	-	-	-
Deferred revenue	179,743	-	-	628,155	-	-	-
Other liabilities	-	51,690	-	-	11,018	-	100,522
Total liabilities	<u>388,811</u>	<u>61,586</u>	<u>1,240,772</u>	<u>888,461</u>	<u>483,661</u>	<u>31,349</u>	<u>162,945</u>
FUND BALANCES							
Reserved for:							
Encumbrances	1,792,695	47,245	10,497,786	787,304	57,928	63,671	41,453
Perpetual care	-	-	-	-	-	-	-
Capital projects	33,642	-	-	-	-	-	-
FutureExpenditures	-	-	-	-	-	-	-
Unreserved:							
Undesignated	<u>700,496</u>	<u>758,640</u>	<u>5,673,062</u>	<u>(787,304)</u>	<u>(134,676)</u>	<u>756,038</u>	<u>215,208</u>
Total fund balances	<u>2,526,833</u>	<u>805,885</u>	<u>16,170,848</u>	<u>-</u>	<u>(76,748)</u>	<u>819,709</u>	<u>256,661</u>
Total liabilities and fund balances	<u>\$ 2,915,644</u>	<u>\$ 867,471</u>	<u>\$ 17,411,620</u>	<u>\$ 888,461</u>	<u>\$ 406,913</u>	<u>\$ 851,058</u>	<u>\$ 419,606</u>

CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

Exhibit F-1

Special Revenue Funds						Permanent Funds	Nonmajor Governmental Funds
Golf Fund	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non- Expendable trust	
\$ 718,654	\$ 7,165,963	\$ 4,553,614	\$ 2,527,469	\$ 2,233,513	\$ 36,638,717	\$ 6,214,897	\$ 42,853,614
-	-	-	-	-	-	-	-
-	522,517	-	264,860	-	3,337,538	15,933	3,353,471
-	-	-	-	-	3,084	-	3,084
9,552	-	-	-	-	135,606	-	135,606
-	-	-	-	-	-	-	-
-	-	-	-	-	1,641,970	-	1,641,970
<u>\$ 728,206</u>	<u>\$ 7,688,480</u>	<u>\$ 4,553,614</u>	<u>\$ 2,792,329</u>	<u>\$ 2,233,513</u>	<u>\$ 41,756,915</u>	<u>\$ 6,230,830</u>	<u>\$ 47,987,745</u>
\$ 19,469	\$ 200,000	\$ -	\$ 73,588	\$ -	\$ 1,500,872	\$ -	\$ 1,500,872
-	-	-	-	-	185,981	-	185,981
-	-	-	73,361	-	255,887	-	255,887
-	-	-	5,458	-	5,458	-	5,458
-	-	-	24,279	-	520,251	-	520,251
-	-	-	-	-	214,163	-	214,163
-	-	-	-	-	807,898	-	807,898
-	-	-	-	-	163,230	-	163,230
<u>19,469</u>	<u>200,000</u>	<u>-</u>	<u>176,686</u>	<u>-</u>	<u>3,653,740</u>	<u>-</u>	<u>3,653,740</u>
135	110,147	200,000	240,726	-	13,839,090	-	13,839,090
-	-	-	-	-	-	6,111,395	6,111,395
-	-	-	-	-	33,642	-	33,642
138,998	-	-	-	-	138,998	-	138,998
569,604	7,378,333	4,353,614	2,374,917	2,233,513	24,091,445	119,435	24,210,880
708,737	7,488,480	4,553,614	2,615,643	2,233,513	38,103,175	6,230,830	44,334,005
<u>\$ 728,206</u>	<u>\$ 7,688,480</u>	<u>\$ 4,553,614</u>	<u>\$ 2,792,329</u>	<u>\$ 2,233,513</u>	<u>\$ 41,756,915</u>	<u>\$ 6,230,830</u>	<u>\$ 47,987,745</u>

City of Norfolk, Virginia

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007**

	Special Revenue Funds					
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility
REVENUES						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	36,005	-	-	-
Use of money and property	34,990	49,399	680,142	-	-	-
Charges for services	9,848,959	1,837,384	1,440,380	901,754	1,569,390	573,302
Miscellaneous	-	86,220	3,219,928	705,044	105,310	-
Recovered costs	-	-	70,461	-	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	13,867,724	-	-	-
Federal government	-	-	11,390,588	5,404,751	366,624	-
Total revenue	9,883,949	1,973,003	30,705,228	7,011,549	2,041,324	573,302
EXPENDITURES						
General government administration	-	-	839,836	-	-	-
Judicial administration	-	-	1,058,268	-	-	-
Public safety	-	-	5,613,403	-	-	-
Public works	6,806,812	1,624,417	3,953,847	-	-	-
Health and public assistance	-	-	25,995,386	2,036,399	-	-
Cultural and recreational	-	-	667,664	-	3,882,516	442,752
Intergovernmental	-	-	-	4,975,150	-	-
Capital outlay	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total expenditures	6,806,812	1,624,417	38,128,404	7,011,549	3,882,516	442,752
Excess (deficiency) of revenue over expenditures	3,077,137	348,586	(7,423,176)	-	(1,841,192)	130,550
OTHER FINANCING SOURCES (USES)						
Purchase of land	-	-	-	-	-	-
Transfers in	-	-	12,885,358	-	1,746,000	229,855
Transfers out	(1,704,721)	(24,874)	(1,368,601)	-	-	(225,429)
Total other financing sources and uses	(1,704,721)	(24,874)	11,516,757	-	1,746,000	4,426
Net change in fund balances	1,372,416	323,712	4,093,581	-	(95,192)	134,976
Fund balances--beginning	1,154,417	482,173	12,077,267	-	18,444	684,733
Fund balances--ending	\$ 2,526,833	\$ 805,885	\$ 16,170,848	\$ -	\$ (76,748)	\$ 819,709

City of Norfolk, Virginia

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007**

Exhibit F-2

Special Revenue Funds							Permanent Funds	Total Nonmajor Governmental Funds
Cemetery	Golf Fund	Public Amenities	Land Acquisition	EOC/ 911	Tax Incentive	Total Special Revenue	Non- Expendable trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,286,551	\$ 2,286,551	\$ -	\$ 2,286,551
-	-	5,318,780	-	4,007,735	-	9,326,515	-	9,326,515
-	-	-	-	-	-	36,005	-	36,005
-	110,356	-	-	-	7,717	882,604	310,845	1,193,449
1,331,395	1,300,970	-	-	2,108	-	18,805,642	181,855	18,987,497
-	1,496	-	844,255	1,851,321	-	6,813,574	-	6,813,574
-	-	-	-	-	-	70,461	-	70,461
-	-	-	-	-	-	13,867,724	-	13,867,724
-	-	-	-	31,808	-	17,193,771	-	17,193,771
<u>1,331,395</u>	<u>1,412,822</u>	<u>5,318,780</u>	<u>844,255</u>	<u>5,892,972</u>	<u>2,294,268</u>	<u>69,282,847</u>	<u>492,700</u>	<u>69,775,547</u>
-	-	-	-	-	-	839,836	-	839,836
-	-	-	-	-	-	1,058,268	-	1,058,268
-	-	-	-	6,067,076	-	11,680,479	-	11,680,479
-	-	-	-	-	-	12,385,076	-	12,385,076
-	-	-	-	-	-	28,031,785	-	28,031,785
2,060,911	1,427,038	584,062	-	-	-	9,064,943	-	9,064,943
-	-	-	-	-	-	4,975,150	-	4,975,150
-	-	-	5,046,234	-	-	5,046,234	-	5,046,234
-	-	-	-	-	738,686	738,686	-	738,686
<u>2,060,911</u>	<u>1,427,038</u>	<u>584,062</u>	<u>5,046,234</u>	<u>6,067,076</u>	<u>738,686</u>	<u>73,820,457</u>	<u>-</u>	<u>73,820,457</u>
<u>(729,516)</u>	<u>(14,216)</u>	<u>4,734,718</u>	<u>(4,201,979)</u>	<u>(174,104)</u>	<u>1,555,582</u>	<u>(4,537,610)</u>	<u>492,700</u>	<u>(4,044,910)</u>
-	-	-	-	-	-	-	-	-
894,461	4,578	5,000	-	1,043,450	218,746	17,027,448	-	17,027,448
-	-	(1,225,000)	-	-	-	(4,548,625)	(305,580)	(4,854,205)
<u>894,461</u>	<u>4,578</u>	<u>(1,220,000)</u>	<u>-</u>	<u>1,043,450</u>	<u>218,746</u>	<u>12,478,823</u>	<u>(305,580)</u>	<u>12,173,243</u>
164,945	(9,638)	3,514,718	(4,201,979)	869,346	1,774,328	7,941,213	187,120	8,128,333
91,716	718,375	3,973,762	8,755,593	1,746,297	459,185	30,161,962	6,043,710	36,205,672
<u>\$ 256,661</u>	<u>\$ 708,737</u>	<u>\$ 7,488,480</u>	<u>\$ 4,553,614</u>	<u>\$ 2,615,643</u>	<u>\$ 2,233,513</u>	<u>\$ 38,103,175</u>	<u>\$ 6,230,830</u>	<u>\$ 44,334,005</u>

Agency Funds

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds:

Agency Fund - Other – to account for other monies held for private organizations and other funds.

Agency Fund – Commonwealth of Virginia – to account for monies on deposit with the City Treasurer held for the Treasurer of the Commonwealth of Virginia.



Combining Balance Sheet - Agency Funds
June 30, 2007

	<u>Other</u>	<u>Commonwealth of Virginia</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 4,996,411	\$ -	\$ 4,996,411
Receivables:			
Accounts, net of allowance for uncollectible accounts	784	-	784
Total assets	<u>\$ 4,997,195</u>	<u>\$ -</u>	<u>\$ 4,997,195</u>
LIABILITIES			
Vouchers payable	\$ 176,469	\$ -	\$ 176,469
Other liabilities	4,820,726	-	4,820,726
Total liabilities	<u>\$ 4,997,195</u>	<u>\$ -</u>	<u>\$ 4,997,195</u>

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2007

	Other		
	Balance July, 1,2006	Additions	Deductions
ASSETS			
Cash and cash equivalents	\$ 3,747,070	\$ 5,483,596	\$ 4,234,255
Accounts receivable	86,664	-	85,880
Total assets	<u>\$ 3,833,734</u>	<u>\$ 5,483,596</u>	<u>\$ 4,320,135</u>
LIABILITIES			
Vouchers payable	\$ 56,398	\$ 1,955,559	\$ 1,835,488
Other liabilities	3,777,336	5,704,194	4,660,804
Total liabilities	<u>\$ 3,833,734</u>	<u>\$ 7,659,753</u>	<u>\$ 6,496,292</u>
	Commonwealth of Virginia		
	Balance July, 1,2006	Additions	Deductions
ASSETS			
Cash and cash equivalents	\$ 596	\$ -	\$ 596
Total assets	<u>\$ 596</u>	<u>\$ -</u>	<u>\$ 596</u>
LIABILITIES			
Other liabilities	\$ 596	\$ -	\$ 596
Total liabilities	<u>\$ 596</u>	<u>\$ -</u>	<u>\$ 596</u>
	Total		
	Balance July, 1,2006	Additions	Deductions
ASSETS			
Cash and cash equivalents	\$ 3,747,666	\$ 5,483,596	\$ 4,234,851
Accounts receivable	86,664	-	85,880
Total assets	<u>\$ 3,834,330</u>	<u>\$ 5,483,596</u>	<u>\$ 4,320,731</u>
LIABILITIES			
Vouchers payable	\$ 56,398	\$ 1,955,559	\$ 1,835,488
Other liabilities	3,777,932	5,704,194	4,661,400
Total liabilities	<u>\$ 3,834,330</u>	<u>\$ 7,659,753</u>	<u>\$ 6,496,888</u>

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis. The individual internal service funds are:

Storehouse Fund – to acquire and issue to the operating departments materials, parts, and supplies which are used in the same form as purchased

Fleet Management Fund – to provide the operating departments with maintenance, repair and service for the City fleet of vehicles, heavy equipment and miscellaneous machinery



CITY OF NORFOLK, VIRGINIA
Combining Statement of Net Assets - Internal Service Funds
June 30, 2007

Exhibit H-1

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,267	\$ 3,843,944	\$ 3,854,211
Receivables, net	1,714	156,475	158,189
Due from other funds	-	-	-
Inventories	1,856,715	405,429	2,262,144
Total current assets	1,868,696	4,405,848	6,274,544
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	22,328	5,506,685	5,529,013
Total noncurrent assets	22,328	5,921,685	5,944,013
Total assets	1,891,024	10,327,533	12,218,557
LIABILITIES			
Current liabilities:			
Vouchers/accounts payable	96,442	275,393	371,835
Due to other funds	94,717	76,923	171,640
Compensated absences	32,517	200,531	233,048
Accrued payroll	8,833	55,170	64,003
Obligations for Employees Retirement System	54,579	349,706	404,285
Total current liabilities	287,088	957,723	1,244,811
Noncurrent liabilities:			
Compensated absences	8,129	77,984	86,113
Other long-term liabilities	-	10,213	10,213
Total noncurrent liabilities	8,129	88,197	96,326
Total liabilities	295,217	1,045,920	1,341,137
NET ASSETS			
Invested in capital assets, net			
of related debt	22,328	5,911,472	5,933,800
Unrestricted	1,573,479	3,370,141	4,943,620
Total net assets	\$ 1,595,807	\$ 9,281,613	\$ 10,877,420

CITY OF NORFOLK, VIRGINIA
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets - Internal Service Funds
For the Year Ended June 30, 2007

Exhibit H-2

	Storehouse	Fleet Management	Total
Operating revenue:			
Charges for services	\$ 3,872,309	\$ 11,140,290	\$ 15,012,599
Miscellaneous	-	70,915	70,915
Total operating revenue	<u>3,872,309</u>	<u>11,211,205</u>	<u>15,083,514</u>
Operating expenses:			
Personal services	443,561	2,806,868	3,250,429
Cost of goods sold	3,213,205	5,792,460	9,005,665
Plant operations	12,542	176,438	188,980
Depreciation	2,568	279,187	281,755
Retirement contribution	54,575	349,702	404,277
Bad debt expense	-	62,860	62,860
Other	43,661	1,395,329	1,438,990
Total operating expenses	<u>3,770,112</u>	<u>10,862,844</u>	<u>14,632,956</u>
Operating income (loss)	<u>102,197</u>	<u>348,361</u>	<u>450,558</u>
Nonoperating revenue (expenses):			
Interest and investment revenue (expense)	8,533	159,975	168,508
Total nonoperating revenue (expenses)	<u>8,533</u>	<u>159,975</u>	<u>168,508</u>
Net income (loss) before	<u>110,730</u>	<u>508,336</u>	<u>619,066</u>
Other Financing Sources			
Transfers in (out)	<u>-</u>	<u>(90,000)</u>	<u>(90,000)</u>
Change in net assets	110,730	418,336	529,066
Net assets--beginning	1,485,077	8,863,277	10,348,354
Net assets--ending	<u>\$ 1,595,807</u>	<u>\$ 9,281,613</u>	<u>\$ 10,877,420</u>

CITY OF NORFOLK, VIRGINIA
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2007

Exhibit H-3

	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,872,135	\$ 11,343,855	\$ 15,215,990
Payments to suppliers	(3,605,130)	(7,755,309)	(11,360,439)
Payments to employees	(482,652)	(3,132,808)	(3,615,460)
Other receipts (payments)	(134,682)	185,505	50,823
Net cash provided (used) by operating activities	<u>(350,329)</u>	<u>641,243</u>	<u>290,914</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Internal activity	<u>129,771</u>	<u>(30,116)</u>	<u>99,655</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of property, plant and equipment	-	(81,424)	(81,424)
Net cash used by capital and related financing activities	<u>-</u>	<u>(81,424)</u>	<u>(81,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>8,533</u>	<u>159,975</u>	<u>168,508</u>
Net cash provided by investing activities	<u>8,533</u>	<u>159,975</u>	<u>168,508</u>
Net increase in cash and cash equivalents	(212,025)	689,678	477,653
Cash and cash equivalents - beginning of the year	<u>222,292</u>	<u>3,154,266</u>	<u>3,376,558</u>
Cash and cash equivalents - end of the year	<u><u>\$ 10,267</u></u>	<u><u>\$ 3,843,944</u></u>	<u><u>\$ 3,854,211</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income	\$ 102,197	\$ 348,361	\$ 450,558
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	2,568	279,187	281,755
Change in assets and liabilities:			
Receivables, net	(175)	266,425	266,250
Inventories	(134,682)	27,023	(107,659)
Accounts/vouchers payables	(335,722)	(301,082)	(636,804)
Accrued payroll	1,211	(1,714)	(503)
Other liabilities	14,274	23,043	37,317
Net cash provided (used) by operating activities	<u><u>\$ (350,329)</u></u>	<u><u>\$ 641,243</u></u>	<u><u>\$ 290,914</u></u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CITY OF NORFOLK, VIRGINIA
Schedule of Federal Expenditures
For the Period Ended June 30, 2007

Exhibit I

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Agriculture:</u>		
Direct Payments:		
USDA Summer Food Service Program (SFSP)	10.559	\$ 255,087
Food Stamp Program - Administration	10.561	5,011,665
Pass-through Payments:		
State Department of Agriculture:		
National School Breakfast Program	10.553	2,212,717
National School Lunch Program	10.555	7,301,962
National School Lunch Program (Commodities)	10.556	932,191
<u>Department of Housing and Urban Development:</u>		
Direct Payments:		
Community Development Block Grant	14.218	5,404,751
CHDA Operating	14.231	108,973
Ecumenical Family Services	14.231	60,511
ESG Administration	14.231	5,096
For Kids, Inc. Haven Family Services	14.231	29,581
NRHA Administration	14.231	163,410
Salvation Army	14.231	26,744
St Columbia	14.231	27,669
YWCA Shelter Program	14.231	31,099
Planning Council	14.231	55,298
American Dream Downpayment Initiative	14.239	23,701
Home Loan Program	14.239	335,830
Home Investment Partnership	14.239	2,389,255
<u>Department of Justice:</u>		
Direct Payments:		
Local Law Enforcement	16.592	23,218
Universal Hiring Program	16.592	35,472
COPS Technology Grant		66,152
Asset Forfeiture - Special Police Grant	16.700	191,321
Bureau of Justice Grant	16.710	213,100
COPS in Schools	16.710	371,535
Pass-Through Payments:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive	16.523	27,770
VSTOP Prosecutorial Project	16.540	23,026
Adult Drug Court	16.579	9,750
Alternatives to Detention	16.579	(12,673)
Disproportionate Minority	16.540	25,000
Recruit and Retain Criminal Justice Professionals	16.579	14,961
Crime Delinquency Prevention	16.579	34,700
Project Safe Neighborhoods	16.609	46,759
<u>Department of Transportation:</u>		
Pass-Through Payments:		
Highway Planning and Construction - Schooner	20.205	500,000
Selective Enforcement	20.511	29,834

continued

CITY OF NORFOLK, VIRGINIA
Schedule of Federal Expenditures
For the Period Ended June 30, 2007

Exhibit I

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Homeland Security</u>		
Direct Payments:		
Disaster Relief	97.034	-
FEMA - Assistance to Firefighters	97.044	696,194
Anti-Terrorism		5,863
Pass-Through Payments:		
VA State Homeland Security	97.004	431,470
FEMA - Flood Mitigation	97.029	603,388
Disaster Grants - Public Assistance	97.036	31,808
Buffer Zone	97.078	139,063
<u>Department of Education:</u>		
Direct Payments:		
Department of Defense	84.010	668,527
School Assistance in Federally Affected Areas	84.041	6,196,900
Pass-Through Payments:		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Adult Education	84.002	341,160
Advanced Placement	84.330	8,851
Title I:		
Educationally Deprived Children- Programs Operated by LEA's	84.010	18,338,292
Comprehensive School Reform Demonstration Program	84.332	347,039
CSR Phase II	84.332	
School Improvement Grant	84.363	77,811
Chapter I:		
Evenstart Program	84.213	683,437
Title VI:		
Negligent Delinquent Children	84.010	213,340
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to States for Education of Handicapped Children:		
Assistive Technology Grant	84.027	61,535
Silver Grant	84.027	1,240
Special Education Flow Thru (Federal)	84.027	6,572,844
Handicapped Preschool Incentive Grant	84.173	245,663
Title IV-B:		
Vocational Education:		
Consumer and Homemaking	84.048	1,009,588
Sub Teach Linkage	84.048	1,900
Beating the Odds	84.218	16,301
9TH Grade Transition	84.298	6,745
Special Projects:		
Drug Free Act	84.186	336,902
ESEA, Chapter II	84.298	199,182
McKinney Homeless Assistance	84.196	38,385
Enhanced Reading Opportunities	84.215	829,011
Comm Central	84.287	36,573
Comm Central Phase II	84.287	108,362

continued

CITY OF NORFOLK, VIRGINIA
Schedule of Federal Expenditures
For the Period Ended June 30, 2007

Exhibit I

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Education:</u>		
Pass-Through Payments:		
Educate Teachers	84.318	224,766
Region Tech Year 1	84.318	500,027
Gear Up Access Virginia	84.334	11,531
NASA - Exploring Space		10,000
Teacher Quality Enhancement	84.336	9,011
Reading First	84.357	831,466
Limited English	84.365	49,928
Teacher & Principal Training	84.367	3,112,486
Emergency Aid Impact	84.938	297,378
<u>Department of the Navy:</u>		
Direct Payments:		
USS Wisconsin Grant	12.700	366,624
Pass-Through Payments:		
NJROTC	N/A	306,715
Erate-Universal Service Funds		267,572
<u>Department of Health and Human Services:</u>		
Direct Payments:		
HIV/AIDS Grant	93.914	4,310,552
NIC Pool Funds	N/A	70,991
Pass-Through Payments:		
Youth & Family Services Grant	93.556	333,950
Temporary Assistance to Needy Families	93.558	3,970,217
Refugee and Entrant Assistance State Administered Prog	93.566	5,357
Local-Income Home Energy Assistance	93.568	177,197
Payments to States for Child Care Assistance	93.575	3,238,512
Child Development Care	93.596	3,939,559
Independent Living Program - Education and Training	93.599	16,573
Adoption Incentive Program	93.603	493
Family Preservation	93.645	558
Foster Care - Title IV - E	93.658	3,882,267
Adoptive Assistance	93.659	948,706
Social Services Block Grant	93.667	2,645,654
Independent Living Initiative Program	93.674	76,497
FAMIS Outreach Grants	93.767	10,843
Medical Assistance Program - Administrative	93.778	4,121,633
Fraud Free Program	94.006	108,748
RDMI Child Abuse Prevention		20,888
<u>Other Federal Assistance:</u>		
Sheriff Social Security	N/A	8,200
Totals		\$ 98,097,738

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

1. General:

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City. The City of Norfolk single audit reporting entity includes the primary government and the School Board component unit, and excludes the component units of the Norfolk Redevelopment and Housing Authority and the Community Services Board.

Federal awards not received through direct programs are passed through the departments and agencies of the Commonwealth of Virginia.

2. Basis of Accounting:

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred or measurable. The related revenue is reported net of unexpended amounts returned to grantors.

3. Relationship to the Basic Financial Statements:

Federal award revenue is reported in the City's basic financial statements as follows:

Governmental fund	\$ 28,496,629
Non-governmental funds	17,193,771
Enterprise funds	<u>-</u>
Total revenues from federal government	45,690,400
Component Unit - School Board	52,407,338
Total federal financial assistance reported in basic financial statements	<u><u>\$ 98,097,738</u></u>

Reconciliation to Exhibit A-3

Revenues from federal government	\$ 45,690,400
Hurricane Isabelle disaster relief recovery	2,190,946
Total revenues from federal government	<u>47,881,346</u>
Revenues from Commonwealth of Virginia	108,754,960
Total intergovernmental revenue	<u><u>\$ 156,636,306</u></u>

Reconciliation to Exhibit B-3

Revenues from federal government	\$ -
Hurricane Isabelle disaster relief recovery	250,427
Total revenues from federal government	<u>250,427</u>
Revenues from Commonwealth of Virginia	82,923
Total intergovernmental revenue	<u><u>\$ 333,350</u></u>

4. Relationship to Federal Financial Reports:

Amounts reported in the accompanying schedule agree substantially with the amounts reported in the federal financial reports except that certain federal financial reports are prepared on the cash basis of accounting and the schedule of expenditures of federal awards is prepared on the basis of accounting described in Note 2 above.

SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~



***Schedule of Revenues and Expenditures - Budget and Actual
Towing Recovery Operation
For the Year Ended June 30, 2007***

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Use of money and property	\$ -	\$ 49,399	\$ 49,399
Charges for services	1,741,500	1,837,384	95,884
Other	206,000	86,220	(119,780)
Total revenue	<u>\$ 1,947,500</u>	<u>\$ 1,973,003</u>	<u>\$ 25,503</u>
Expenditures:			
Towing recovery	\$ 1,797,500	1,624,417	(173,083)
Transfer out Debt Service	150,000	24,874	(125,126)
	<u>\$ 1,947,500</u>	<u>\$ 1,649,291</u>	<u>\$ (298,209)</u>

CITY OF NORFOLK, VA**Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual***
Storm Water Utility Fund
For the Year Ended June 30, 2007

	Budget	Actual	Positive (negative) Variance
Revenues:			
Use of money and property	\$ 10,000	\$ 34,990	\$ 24,990
Charges for services	10,199,800	9,848,959	(350,841)
Total revenue	<u>\$ 10,209,800</u>	<u>\$ 9,883,949</u>	<u>\$ (325,851)</u>
Expenditures:			
Storm water	\$ 6,650,098	\$ 8,092,265	\$ (1,442,167)
Transfer out Debt Service	3,559,702	1,704,721	1,854,981
Total expenditures	<u>\$ 10,209,800</u>	<u>\$ 9,796,986</u>	<u>\$ 412,814</u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Nauticus
For the Year Ended June 30, 2007

Exhibit J-1

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	\$ 2,247,500	\$ 1,936,014	\$ (311,486)
Transfer in	1,746,000	1,746,000	-
Other	120,000	105,310	(14,690)
Total revenue	<u>\$ 4,113,500</u>	<u>\$ 3,787,324</u>	<u>\$ (326,176)</u>
Expenditures:			
Operations	<u>\$ 4,113,500</u>	<u>\$ 3,881,004</u>	<u>\$ 232,496</u>

Schedule of Revenues and Expenditures - Budget and Actual
Maritime Facility
For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Charges for services	\$ 765,900	\$ 573,302	\$ (192,598)
Transfer in	<u>187,500</u>	<u>229,855</u>	<u>42,355</u>
Total revenue	<u><u>\$ 953,400</u></u>	<u><u>\$ 803,157</u></u>	<u><u>\$ (150,243)</u></u>
Expenditures:			
Operations	\$ 588,227	\$ 442,752	\$ 145,475
Transfer out Debt Service	<u>365,173</u>	<u>225,429</u>	<u>139,744</u>
	<u><u>\$ 953,400</u></u>	<u><u>\$ 668,181</u></u>	<u><u>\$ 285,219</u></u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2007

Exhibit J-1

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	\$ 1,483,500	\$ 1,302,466	\$ (181,034)
Transfer in	-	4,578	4,578
Other	-	110,356	110,356
Total revenue	<u>\$ 1,483,500</u>	<u>\$ 1,417,400</u>	<u>\$ (66,100)</u>
Expenditures:			
Operations	<u>\$ 1,483,500</u>	<u>\$ 1,427,038</u>	<u>\$ (56,462)</u>

CITY OF NORFOLK, VA**Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund
For the Year Ended June 30, 2007***

	Budget	Actual	Positive (negative) Variance
Revenues:			
Taxes	\$ 4,007,735	\$ 4,007,735	\$ -
Fees	500	2,108	1,608
Recovered cost	917,728	1,851,321	933,593
Intergovernmental - Federal	102,603	31,808	(70,795)
Operating transfers in	1,043,450	1,043,450	-
Rollover from Last Year	151,884	151,884	-
Total revenue	<u>\$ 6,223,900</u>	<u>\$ 7,088,306</u>	<u>\$ 864,406</u>
Expenditures:			
Operations	<u>\$ 6,223,900</u>	<u>\$ 6,034,804</u>	<u>\$ 189,096</u>

CITY OF NORFOLK, VA**Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Fund*****For the Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Charges for services	\$ 1,295,950	\$ 1,331,395	\$ 35,445
Transfer In	888,850	894,461	5,611
Total revenue	<u>\$ 2,184,800</u>	<u>\$ 2,225,856</u>	<u>\$ 41,056</u>
Expenditures:			
Operations	<u>\$ 2,184,800</u>	<u>\$ 2,060,911</u>	<u>\$ 123,889</u>

CITY OF NORFOLK, VA**Exhibit J-1**

***Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Fund
For the Year Ended June 30, 2007***

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Taxes-Hotel & Restaurant	\$ 5,182,800	\$ 5,318,780	\$ 135,980
Transfer in	-	5,000	5,000
Total revenue	<u>\$ 5,182,800</u>	<u>\$ 5,323,780</u>	<u>\$ 140,980</u>
Expenditures:			
Transfer to CIP Fund	\$ 1,225,000	\$ 1,225,000	\$ -
Challenge Grants	655,000	582,000	73,000
McArthur Memorial	25,000	22,630	2,370
Future Public Amenities	3,277,800	-	3,277,800
Public Amenities	<u>\$ 5,182,800</u>	<u>\$ 1,829,630</u>	<u>\$ 3,353,170</u>

Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Fund
For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Taxes-Real Property	\$ 1,837,500	\$ 2,286,551	\$ 449,051
Use of money and property	2,000	7,717	5,717
Transfer in	-	218,746	218,746
Total revenue	<u>\$ 1,839,500</u>	<u>\$ 2,513,014</u>	<u>\$ 673,514</u>
Expenditures:			
Debt Service	\$ 1,839,500	\$ 738,686	\$ 1,100,814
Tax Increment Financing	<u>\$ 1,839,500</u>	<u>\$ 738,686</u>	<u>\$ 1,100,814</u>

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Use of money and property	\$ 76,479	159,975	\$ 83,496
Charges for services	11,284,921	11,211,205	(73,716)
Total revenue	<u>\$ 11,361,400</u>	<u>\$ 11,371,180</u>	<u>\$ 9,780</u>
Expenditures:			
Fleet	<u>\$ 11,361,400</u>	<u>\$ 10,764,897</u>	<u>\$ 596,503</u>

Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2007

	Budget	Actual *	Positive (negative) Variance
Revenues:			
Charges for services	\$ 562,800	\$ 659,104	\$ 96,304
Use of money and property	-	8,533	8,533
	<u>\$ 562,800</u>	<u>\$ 667,637</u>	<u>\$ 104,837</u>
Expenditures:			
Storehouse	<u>\$ 562,800</u>	<u>\$ 556,907</u>	<u>\$ 5,893</u>

**The difference in revenue and expenditures per this schedule compared to Exhibit H-2 represents cost of goods sold which is not included in the operating budget.*

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2007

Capital Projects Description	Expenditures			
	Project Budget	Prior Years *	Current	Available
Community Development				
Neighborhood Project Development	12,800,000	12,458,779	307,088	12,763,877
Neighborhood Revitalization	54,085,160	33,352,351	5,600,057	38,952,408
Broad Creek Renaissance	9,038,000	17,340,259	3,095,232	20,435,491
Neighborhood Streets Improvements	5,293,000	4,911,121	119,241	5,030,362
Neighborhood Commercial Improvements	11,002,000	8,968,520	596,965	9,565,485
Other	681,000	1,270,575	96,704	1,367,379
Total Community Development	92,900,160	78,299,705	9,815,297	88,115,002
Cultural Facilities				
Attucks Theatre Renovations	2,485,000	2,670,000	9,040	2,679,040
Scope Chiller Replacements	2,760,000	2,727,365	311,117	2,758,382
Scope Improvements	10,100,000	9,997,863	2,966,368	8,031,595
Civic Building Improvements	1,400,000	1,345,338	1,169,083	1,176,255
Civic Building Improvements	1,721,000	1,108,865	117,780	1,226,345
Conference Center	27,000,000	7,859,869	2,542,163	10,401,252
Harrison Opera House Improvements	405,000	645	79,095	16,598,748
MacArthur Memorial Improvements	577,000	-	30,741	325,260
Wells Theater Improvements	225,000	-	61,157	546,259
Nauticus/Maritime Center Improvements	1,337,500	249,098	854,943	163,843
Other	1,207,500	2,027,492	174,052	2,207,544
Total Cultural Facilities	51,892,000	24,255,416	8,481,107	32,736,523
Economic Development				
Historic Building City Property	39,757,698	16,348,668	7,891,487	15,518,043
Nauticus Development	37,855,000	21,046,157	16,484,460	324,383
Nauticville Redevelopment	1,000,000	6,900	-	983,100
Other	1,085,000	1,591,132	87,613	1,678,745
Total Economic Development	79,697,698	38,992,357	24,463,560	63,455,917
General/Other				
Camposella Landfill Closure	900,000	1,527,918	236,172	1,764,090
Beach Erosion Control	16,854,842	13,155,249	348,728	13,503,977
Transfer to Debt Service	2,247,324	1,741,232	936,092	2,247,324
IPMS - Financial System Implementation	2,696,904	2,077,686	759,673	61,625
Railway Dredging Projects	4,922,700	2,437,339	1,509,305	1,983,656
Other	31,055,770	21,777,009	3,781,488	25,565,507
Total General/Other	57,577,636	33,849,443	6,262,385	25,565,507
Public Buildings and Facilities				
Fire Station Emergency Generation Program	1,634,622	1,079,043	42,440	1,121,483
Infrastructure Improvements	2,886,500	1,433,373	1,014,564	2,447,937
Public Health Center - Bio Med Facility	2,233,537	2,371,579	-	2,371,579
Detention Home Project	7,428,681	7,424,110	-	7,424,110
Annual Roof Maintenance	3,971,000	2,360,288	986,643	3,346,931
Library Facilities Anchor Branch	10,476,238	1,641,307	5,106,160	6,747,487
Police Facility Replacement	11,059,500	8,568,235	9,568,777	3,728,751
Courthouse Renovations	1,500,000	1,500,000	87,765	1,500,000
Jail Renovations	2,063,200	2,815,085	159,750	2,985,835
Selden Arcade Renovations	7,250,000	6,503,985	697,935	7,201,920
City Hall Building Renovations	3,390,000	1,498,571	519,861	2,018,432
Chrysler Museum Renovations	1,075,000	1,070,777	4,224	1,075,001
Tow Yard Acquisition	1,300,000	-	-	-
Fre Facilities Replacement/Improvements	793,000	14,948	295,799	270,747
Police Training Facilities	3,606,000	-	-	-
Other	2,974,955	1,923,989	280,781	2,184,770
Total Public Buildings & Facilities	71,617,233	39,208,536	9,933,713	49,142,249
				22,474,984

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2007

Capital Projects Description	Expenditures			
	Project Budget	Prior Years *	Current	Total Available
Parks/Recreational Facilities				
Zoo Master Plan	12,020,000	8,597,471	762,222	9,359,693
Busdown Recreation Center Improvements	3,550,000	3,000,000	-	3,000,000
Busdown Center	2,014,000	1,941,178	113,838	2,055,016
Existing Recreation Center Improvements	9,021,000	2,598,216	1,457,167	4,055,383
Nonleisure Recreation Center	3,715,000	-	346,467	346,467
Lambert's Point Golf Course	9,188,300	8,682,080	25,338	8,707,418
Lambert's Point Community & Recreational Center	6,407,000	54,423	228,950	283,373
Harbor Park Improvements	800,000	6,215	66	6,281
Athletic Field Renovations	979,000	85,012	499,074	584,086
Norfolk Fitness & Wellness Center Renovations	1,173,670	596,449	318,831	915,280
Broadcreek & Westside Neighborhood Parks	1,505,000	-	885,571	885,571
Town Point Park Improvements	6,060,000	-	382,157	382,157
Martin Luther King Park	123,000	-	-	-
Other	2,716,366	718,476	205,602	924,078
Total Parks/Recreational Facilities	59,272,336	26,278,520	5,225,283	31,504,803
Schools				
Norfolk Public School Allocation	1,596,813	1,596,813	-	1,596,813
Taylor Elementary Replacement	1,150,000	1,109,574	-	1,109,574
Project Design Phase	5,757,830	5,757,830	-	5,757,830
Blair Middle School Replacement	7,071,710	6,602,475	3,629,335	10,431,810
Norfolk Public School Construction	5,688,631	3,009,431	-	3,009,431
Norfolk Public School Initiative	5,285,000	3,374,916	220,142	3,595,058
Norview Construction	26,979,400	22,522,939	-	22,522,939
Southeast Middle School	2,250,000	4,429,888	65,369	4,495,257
High School Athletic Field	1,350,000	1,350,000	-	1,350,000
Glennan Park Area Elementary Replacement	21,165,000	9,636,493	7,188,588	16,825,081
Conrad Road Elementary Replacement	4,648,525	-	-	-
Other	3,924,324	104,493	158,801	261,294
Total Schools	87,109,874	58,144,852	11,480,235	68,605,087
Storm Water				
Storm Water Quality Improvements	4,566,000	3,631,003	1,268,791	4,899,794
Storm Water Facility Improvements	2,105,000	2,222,406	4,818	2,227,224
Old Dominion University Master Plan	1,374,255	1,374,255	-	1,374,255
Drain Line Clean & Slip Lining	1,181,000	1,305,120	205,744	1,510,864
Neighborhood Flood Reduction	4,700,267	3,007,187	286,836	3,294,023
Bulkheading Master Project	2,000,000	1,509,688	282,010	1,791,698
Pump Station Improvements	149,478	-	-	-
Other	50,000	593,748	2,000	595,748
Total Storm Water	16,126,000	13,643,407	2,050,199	15,693,606
Transportation				
Old Dominion University Master Plan	9,278,600	8,559,901	14,100	8,574,001
VDOT Urban Support Program	9,665,702	7,257,188	65,754	7,322,942
Bridge Maintenance & Repair Program	13,544,351	3,994,957	3,955,926	7,950,883
Signal & Intersection Enhancements	8,340,000	5,209,160	733,304	5,942,464
Citywide Soundwall Program	8,886,260	6,915,271	575,163	7,493,434
Neighborhood Streets Improvements	31,625,666	7,246,838	6,462,405	13,709,243
Atlantic City Development	6,844,200	2,499,657	1,054,346	3,554,003
Citywide Boat Ramp Improvements	7,394,230	357,678	615,094	1,172,772
Other	7,230,681	2,368,811	6,267	2,375,078
Total Transportation	97,124,929	44,618,474	14,337,849	58,956,323
Total Capital Projects	586,798,100	345,219,276	89,548,741	434,768,017

* Note: Some prior year amounts were reclassified to reflect proper classification.

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APPENDIX B

FORM OF LEGAL OPINION OF BOND COUNSEL

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APPENDIX B
[FORM OF BOND COUNSEL OPINION]

February 13, 2008

Mayor and Council of the
City of Norfolk, Virginia
City Hall Building
Norfolk, Virginia 23510

\$17,160,000
City of Norfolk, Virginia
General Obligation Refunding Bonds,
Series 2008A (Tax-Exempt) and Series 2008B (Taxable)

Ladies and Gentlemen:

We have served as Bond Counsel to the City of Norfolk, Virginia (the "City"), in connection with the issuance of its \$11,900,000 General Obligation Refunding Bonds, Series 2008A (Tax-Exempt) (the "2008A Bonds") and \$5,260,000 General Obligation Refunding Bonds, Series 2008B (Taxable) (the "2008B Bonds," together with the 2008A Bonds, the "Bonds"), each dated February 13, 2008.

We have examined the Constitution of Virginia and the applicable laws of the Commonwealth of Virginia and the United States, including Public Finance Act of 1991, as amended and Internal Revenue Code of 1986, as amended (the "Code") and such certified proceedings and other documents of the City as we deem necessary to render this opinion. As to questions of fact material to this opinion, we have relied upon the certified proceedings and certifications and representations of the City and certain public officials and other persons furnished to us without undertaking to verify them by independent investigation.

In rendering this opinion, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties to them other than the City, and we have further assumed the due organization, existence and powers of such parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The Bonds have been authorized and issued in accordance with the Constitution and laws of the Commonwealth of Virginia and constitute valid and binding general obligations of the City for the payment of which the City's full faith and credit are pledged.

2. The Council of the City has the power and is authorized and required by law to levy and collect annually, at the same time and in the same manner as other taxes of the City

are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and premium, if any, and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2008A Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2008A Bonds, is excludable from gross income for purposes of federal income taxation under Section 103 of the Code, and is not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. We observe, however, that for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code, interest on the 2008A Bonds must be included in computing adjusted current earnings. The "original issue discount" on any Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2008A Bonds of the same maturity was sold. The "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2008A Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the City as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants (as defined below) by the City, so that interest on the 2008A Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2008A Bonds in order for interest on the 2008A Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2008A Bonds and the use of the property financed or refinanced by the 2008A Bonds, limitations on the source of the payment of and the security for the 2008A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2008A Bonds to the United States Treasury. The City's tax certificate for the 2008A Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2008A Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2008A Bonds from becoming includible in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2008A Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document.

4. Interest on the 2008B Bonds is not excludable from the gross income of the owners of the Bonds for federal income tax purposes under Section 103 of the Code.

5. Interest on the Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth of Virginia. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

The rights of the owners of the Bonds and the enforceability of those rights are subject to bankruptcy, insolvency, reorganization, moratorium and similar laws now or hereafter in effect affecting creditors' rights. The enforceability of those rights is also subject to the exercise of judicial discretion in accordance with general principles of equity.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the Bonds and the income tax status of the interest on them. We have not been engaged and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and, therefore, we express no opinion as to the accuracy or completeness of any information that may have been relied upon by any owner of the Bonds in making a decision to purchase the Bonds.

Very truly yours,

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX C

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of \$17,160,000 original aggregate principal amount of its General Obligation Refunding Bonds, Series 2008A (Tax-Exempt) and Series 2008B (Taxable) (collectively, the "Bonds"), pursuant to a bond ordinance adopted by the Council of the City on December 4, 2007 (the "Ordinance"). The proceeds of the Bonds are being used by the City, along with other available funds, to (a) refund the outstanding principal amount of the Norfolk Redevelopment and Housing Authority's Taxable Term Loan Revenue Notes, Series 1997 and (B) pay the issuance costs of the Bonds. Pursuant to the Ordinance, the City approved the offering and sale of the Bonds to the public pursuant to an Official Statement relating to the Bonds, dated January 30, 2008 (the "Final Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule (as hereinafter defined) with respect to the Bonds and, accordingly, hereby represents, covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement; Representation. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

Section 2. Definitions. In addition to the definitions set forth in the Ordinance, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" with respect to any Fiscal Year of the City means the following:

(i) the financial statements (consisting of at least a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets for all governmental/enterprise funds) of the City, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this clause (A) will prohibit the City after the date of the Final Official Statement from changing such principles so as to comply with generally accepted accounting principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the sections in the Final Official Statement "Table II-3, Key Debt Trends," "Table II-6, Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita," "Table III-2, Assessed Valuations and Estimated Actual Values of Taxable Property," "Table III-4, Tax Rates and Equalization Factors," "Table III-6, Real and Personal Property Tax Levies and Collections," "Table III-7, Ten

Principal Real Property Taxpayers" and "Table III-14, Comparative Statement of Revenue and Expenditures, General Fund."

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the City and results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of an Obligation.

"Make Public" or **"Made Public"** has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"NRMSIR" shall mean each nationally recognized municipal securities information repository approved as such by the SEC from time to time.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

"SEC" shall mean the U.S. Securities and Exchange Commission.

"SID" shall mean any state-based information depository existing from time to time in the Commonwealth of Virginia for the purpose of receiving information concerning municipal securities and recognized as such by the SEC.

Section 3. Obligations of the City. (a) The City shall complete the preparation of the Annual Financial Information with respect to any Fiscal Year of the City not later than 270 days after the end of such Fiscal Year.

(b) The City shall, in accordance with the Rule, Make Public or cause to be Made Public by the Dissemination Agent (if different from the City), the Annual Financial Information within 30 days after it is prepared.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if different from the City), in a timely manner, notice of any of the following events that may from time to time occur with respect to the Bonds, but with respect to the items in (i) through (xi), only if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancement maintained with respect to the Bonds reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of interest on the Bonds;
- (vii) modifications to rights of Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds;
- (xi) rating changes; and
- (xii) the failure of the City on or before the date required by this Disclosure Agreement to provide Annual Financial Information to the persons and in the manner required by this Disclosure Agreement;

provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds.

(d) The City shall notify each NRMSIR (as defined below) of any change in its Fiscal Year not later than the date on which it first provides any information to the NRMSIRs in the current Fiscal Year.

Section 4. Information Made Public. Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted to each of the following as herein required:

(i) each NRMSIR, at its then current address, including the following NRMSIRs existing as of the date hereof:

Bloomberg Municipal Repository
 100 Business Park Drive
 Skillman, New Jersey 08558
 Phone: (609) 279-3225
 Fax: (609) 279-5962

<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
Email: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
<http://www.ftid.com>
Email: NRMSIR@interactivedata.com

(ii) at its then current address, the SID, if any; provided that in the case of any information Made Public under Section 3(c), such information may be provided to the MSRB at the following address (or such other address as may at the time be in effect), in lieu of providing it to the NRMSIRs as described in clause (i) above:

Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, Virginia 22314
Phone: (703) 797-6600
Fax: (703) 797-6704

Section 5. Incorporation by Reference. Any or all of the Annual Financial Information may be incorporated by reference from other documents, including official statements containing information with respect to the City, which have been filed with each of the NRMSIRs or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Section 6. CUSIP Numbers. The City shall reference, or cause the Dissemination Agent (if different from the City) to reference, the CUSIP prefix number for the Bonds in any notice provided to the NRMSIRs, the MSRB and/or the SID pursuant to Sections 3 and 4.

Section 7. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

Section 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws addressed to the City and to the Participating Underwriters for the Bonds to the effect that such amendment is permitted or required by the Rule.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of an event listed in Section 3(c), in addition to that which is required by this Disclosure Agreement. If the City chooses to report any information in any Annual Financial Information or include any information in a notice of occurrence of an event listed in Section 3(c), in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

Section 11. Default. Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance or other debt authorization of the City, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 12. Central Post Office. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and Holders from time to time of the City's Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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Date: February 13, 2008

CITY OF NORFOLK, VIRGINIA

By: _____
City Manager,
City of Norfolk, Virginia

By: _____
Director of Finance,
City of Norfolk, Virginia

Approved as to Form and Correctness:

Office of City Attorney
City of Norfolk, Virginia

[Signature Page to Continuing Disclosure Agreement]

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